



Mott MacDonald Group Limited

Report and financial statements
31 December 2017



Mott MacDonald Group Limited

Global management, engineering
and development consultancy

+85 awards
for innovation and
excellence in 2017

+16,000 people

**Independent and
employee-owned**
– wholly focused on what's
best for our customers and
our staff

Directors

Keith Howells
Nick DeNichilo
Ian Galbraith
Mike Haigh
James Harris
Guy Leonard
Ed Roud

Committee Governance Chairs

Shareholders	Liz King
Nominations	Cathy Travers
Remuneration and Equity	Denise Bower
Audit and Risk Assurance	Doug Wilson

Company Secretary

Paul Ferguson

Auditor

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Chairman's statement

Keith Howells, Chairman



The start of 2017 saw the launch of the Group strategy, developed during 2016, with good progress achieved during the year against the guiding principles of being more focused and more efficient.

Focused

Our six global 'sectors' – advisory, built environment, energy, international development, transport and water – are becoming well established and starting to make the intended difference to our business. Working closely with our regional businesses, and drawing on our strengthened technical practice networks, the sectors are helping us focus on the markets and clients offering the greatest potential for profitable growth, while the practices are becoming more effective in deploying the right knowledge and skills in support of the global business.

Our account leadership programme is developing momentum, creating a much stronger client focus, and helping us develop a clearer understanding of our clients' businesses and the challenges in delivering better outcomes for their customers.

We are beginning to trim the 'long tail' of work in marginal market 'segments' – the intersection of sector, client and geography – with the aim of focusing our effort on those segments where we are well positioned and where there is clear opportunity for growth. Many of our business units are now successfully focusing on fewer prospects, concentrating their efforts on producing better tenders for the key opportunities. This has resulted in an improved win rate and demonstrates that having a clear focus produces the results anticipated, paving the way for sustainable growth.

Efficient

We are now well advanced on the path to becoming 'digital by default' by the end of this year. A decision to make Building Information Modelling (BIM) the standard way of

delivering engineering projects is leading to the rapid upskilling of staff in pursuit of the efficiencies that BIM offers. Working relationships with, and use of, our global delivery centres – now centres of excellence for digital delivery – are improving following the roll-out of our 'Go Digital' initiative, which is aimed at increasing our use of the latest digital technology on projects, for business operations and for communications.

Understanding of our 'specialty' and 'scale' commercial models for project delivery is developing and, while there is some way to go, we're making clear progress. We also continue to make headway in reducing overheads across the business to drive competitiveness.

People

Our ownership model and culture continue to help us attract and retain the best talent, as well as providing strong motivation for our staff to deliver best possible outcomes for our clients.

An underlying component of our strategy is to provide greater attention to people, with a stronger emphasis on career development; rewards and recognition; performance management; and resource management. This is supported by a clearer focus on succession planning; leadership training; staff mobility; and equality, diversity and inclusion. There is much still to do, but the direction of travel is positive.

We ended the year with just over 16,000 employees, including agency and contract staff.

Differentiation

Implementation of our strategy together with the consolidation and evolution of our brand – conceived during 2016 – are helping us to stand out from the crowd.

Chairman's statement

Recognition

Awards provide recognition from both clients and peers of excellence, innovation and thought leadership. 2017 was a good year, with 85 external wins and commendations around the world, and outstanding contributions to our six internal awards' programmes. External wins of note included:

- **Sustainability:** NCE 100 'Low Carbon Leader', and Association for Consultancy & Engineering 'Sustainability Champion of the Year'.
- **Infrastructure investment:** 'Technical Advisor of the Year' at both the Partnership Awards and the Infrastructure Journal Awards.
- **Equality, diversity and inclusion:** awards received from the Chartered Institution of Highways & Transportation; Construction Investing in Talent; Excellence in Diversity & Inclusion; and the Women's Transportation Seminar.

Revenue and profit

Group revenue and pre-exchange profit were both up on last year. The improvement comes from better quality growth, reduced project losses and a reduction in the level of overheads relative to revenue.

Although headline profit before tax was lower this year, this was due to 2016 profit being artificially inflated by an unrepresentative unrealised exchange gain caused by sterling weakening after the EU referendum. Stripping out the unrealised exchange, underlying profit improved reflecting a solid performance in mixed markets. The business fundamentals remain sound.

Dividend and fair value

A dividend of 55p per share was paid to shareholders at the end of December 2017. The year-end share price was £12.20, up from £11.70 in 2016.

Looking ahead

Global challenges such as population growth, climate change and urbanisation, coupled with the potential offered by rapidly evolving technology, play to our multisector strengths. Our strategy, investment in the business, and our freedom to act as we believe best serves our clients and staff, put us in a good position to achieve business growth over the next five years.



Keith Howells, Chairman
27 February 2018

Corporate responsibility

Keith Howells, Chairman

Running a responsible business

Running a business responsibly is key to its long-term sustainability. Whether it's our own governance and strategy, or the planning, finance, design and delivery of the projects we work on, we recognise that the decisions we make have economic, social and environmental consequences.

On all our projects, our aim is to pursue the best possible outcomes for our clients, the customers they serve and our communities. The aims of many of our projects are aligned with the United Nations' Sustainable Development Goals (SDGs) which set stretching targets for us, our clients and our delivery partners. We promote many of the SDGs through our own behaviours as an organisation. We have a long and proud ethos of opposing bribery and corruption; respecting the people and environments we work with; and of pursuing equality, diversity and inclusion – through our own activities and through responsible procurement of goods and services.

The principles supporting our corporate sustainability are enshrined in our core values of:

Progress, Respect, Integrity, Drive, Excellence – PRIDE.

Non-financial key performance indicators we monitor are summarised below.

Better outcomes for customers

- We work with clients to understand their needs and develop solutions that contribute to sound commercial performance allied with better social and environmental outcomes. Relationships with major clients are led by account leaders, responsible for responding to their clients' needs and ensuring the company provides the best possible service.
- We maintain ISO 9001, ISO 14001 and ISO 18001 certification for quality, environmental and safety management to support better and consistent outcomes.
- We are on track to be 'digital by default' by the end of 2018 in project design, delivery, communication and documentation, making it easier for staff to collaborate and share information, both internally and externally. We use Building Information Modelling (BIM) and common data environments for delivering large engineering projects, helping to contribute to improved performance against quality, cost, time, carbon and safety indicators.
- We have introduced sustainability considerations into our

decision-making, and consider the impact projects might have on the environment, people and economies before bidding for work. We are committed to assessing capital and operational carbon, and the climate change risk, of every large infrastructure project we undertake.

- We promote technical excellence and innovation through our practice networks, as exemplified by our six internal awards schemes, to improve outcomes for our clients.

Environmental performance

Through our project work, we are involved in realising improvements across all our core disciplines. In addition, we have acted to promote the core messages of the UK Government's Infrastructure Carbon Review (ICR) and fulfil our pledges to:

- **Show industry leadership in influencing customers and partners to reduce carbon:** we held our fifth 'Carbon Crunch' event in 2017, looking at the pros and cons of mandatory targets for carbon reduction on infrastructure projects; we also held low carbon leadership events in the United Arab Emirates and India.
- **Champion lean solutions including BIM and offsite construction:** using our carbon modelling tool, we are highlighting the potential of offsite construction to cut waste and drive efficiency. We modelled carbon on 38% of projects in 2017, and are committed to using it on all large projects going forward.
- **Reduce energy use and carbon:** our Group carbon footprint was 2.59tCO₂e per employee for 2016 (2017 figures in preparation). We are committed to reducing per capita emissions by 25% by 2021. Our carbon management strategy and climate risk assessment were submitted to the Carbon Disclosure Project.

Developing talent

We continue to equip our managers with skills for identifying, nurturing and harnessing talent.

- Our Emerging Leaders programme, an initiative to accelerate the development of future leaders, is now in its second year, and we are about to launch a new development programme for senior leaders.
- We encourage staff mobility, allowing our people to grow professionally by working in new environments and cultures.
- We are providing added emphasis on health and well-being, including on work-related stress, safe driving and cycling.

Corporate responsibility

- Our 'Advance' network in the UK continues to promote equality, diversity and inclusion through its regional champions, training and awareness building, and is now increasingly working internationally.

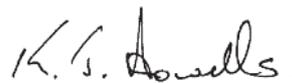
Contributing to our communities

- We support staff with financial contributions to help their charitable and voluntary activities. We believe this is important for the engagement of our staff, but we also gain as a business since individuals develop skills and experience that they bring into the Group for the benefit of clients, colleagues and projects.
- With clients 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.
- We encourage young people to consider careers in our industries. For example:
 - Senior staff contribute to academic programmes and research at numerous universities across the globe.
 - We provide summer internships and industrial placements. In the UK, we sponsor two students per year through the Institution of Civil Engineers' QUEST programme.
 - Graduates and apprentices accounted for 20% of our workforce in 2017, and we are aiming to increase this to 25% by 2021. We are a founder member of the Engineering Technician Apprenticeships Programme and have recruited and trained more than 120 apprentices to date.
 - 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 attend school careers events.

Managing risk, safety and ethics

- The Group's approach to all areas of risk management adopts many aspects of ISO 31000 – Risk Management, and we comply with national legislation and regulations in the countries where we deliver projects. Our 'CLASS' risk management approach has been communicated afresh to all staff.

- Our accident incidence rate (AIR) was 1.6 in 2017, (2016 – 1.5) with 9% of staff reporting an incident. Actions are being taken to monitor and reduce the impact of work-related ill health.
- We do not tolerate unethical behaviour. Ethics is led from the top of the organisation and provides industry leadership on the importance of upholding strong ethical values. Business ethics training is a mandatory component of the induction process for all staff. Our territory managers are selected for their local knowledge of ethical risks and their promotion of our zero-tolerance approach. All reports received through our whistle-blowing process are treated confidentially and are fully investigated and documented. Our global approach to managing risks related to bribery and corruption is certificated as compliant with British Standard 10500.
- Project managers are required to analyse any potential for social and environmental harm on their projects to help mitigate material and reputational risk.
- 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
27 February 2018

Strategic report

Mike Haigh, Managing Director



Financial performance

Gross revenue of £1,549m showed growth of 10% over last year (£1,407m), with organic growth solid at 7% and currency 3%.

Profit before taxation of £37.4m and earnings before interest, taxation, depreciation and amortisation of £62.4m were both down on last year. The fall in these numbers is due to a significant unrealised exchange gain of £25.5m on intergroup balances in 2016 caused by a material weakening of sterling after the EU referendum which inflated 2016 profit above normal levels. This year's profit is more reflective of normality, with underlying pre-exchange operating profit showing good growth over last year.

The effective tax rate for the year at 43% was significantly up on 2016 (15%). The swing is largely due to prior year tax adjustments having a beneficial impact on the effective tax rate in 2016, and to the effect on the 2017 rate of the changes in US taxation announced shortly before the end of year. From 2018 the changes will significantly reduce the US corporate tax rate but this has the effect of increasing the 2017 rate due to the reduction in the value of the Group's deferred tax assets. The prior year adjustments in 2016 arose largely from the recognition of the UK tax exemption for overseas branch profits, and recognition of deferred tax assets in overseas entities which had returned to a profitable position.

Return on average capital employed was 46% after adjusting for exchange, up on last year (41%). Average net working capital levels throughout the year were between 58 and 61 days, 58 at the year end.

Business environment

During 2017, economic recovery continued across most major economies. The global mining and metals sector showed a modest recovery and oil prices stabilised. Political uncertainty including Brexit has contributed to mixed market conditions

for private and public infrastructure across the world.

Despite this, the UK, USA, Singapore and Australia provided good opportunities for growth in all our core sectors. The outlook for 2018 continues to reflect the uncertainties around the world, however there are strong prospects in our core markets and sectors.

The UK provided opportunities for growth in all our core sectors. Central Europe has limited opportunities, but there is a growing market for our advisory business.

In North America, the Canadian market remained challenging and competitive. The US economy improved with good opportunities in all sectors, although the oil and gas sector is still slow.

The South African economy continued to be impacted by political uncertainty and the depressed mining sector, which affected both private investment and tax receipts for funding public infrastructure. Other African markets continued to be impacted by political instability.

The global aid markets are generally good with some significant opportunities, however a slowdown at the start of the year in DFID funded opportunities is still impacting volume.

The picture in the Middle East was mixed. Oil and gas projects continue to be delayed due to depressed oil prices. However, the market for public infrastructure projects held up reasonably well.

The Asian economies were adversely impacted by the macroeconomic pressures outlined above, and this restricted opportunity for growth. However, the markets in Australia, New Zealand and Singapore provided good opportunities in both public and private sectors. China, Hong Kong and Taiwan were more challenging.

Strategic report

Business performance

The Group has performed well in 2017 in this mixed business environment, with its geographic and sectoral diversity continuing to provide a platform for growth.

The key non-financial indicators used to measure performance are set out in the corporate responsibility statement. The commentary on regional business performance set out below is based on the Group's management accounts. Where the management accounts are significantly affected by currency movement in year on year variances, this is highlighted in order to give a more balanced view.

As part of general business improvement, we have in 2017 started to implement our business strategy with more focus on our key clients and markets. This strategy, together with our branding, is bringing much more focus in the business and will help us to be well placed in our core markets and sectors.

UK and Europe

The region represents 50% of the Group's gross revenue and grew 15% over 2016 largely through organic growth. Overall profit was slightly up on 2016. The underlying profit performance in all sectors was good, with significant business improvement in Advisory and Programme Delivery and Bentley Contracting.

The UK business benefited from the government's pursuit of infrastructure projects as an engine for economic growth. The regulated asset-based industries, particularly water, also provided opportunity, as clients continued delivery of their investment programmes.

Our offices in Central Europe continued to provide skilled engineering resources for projects elsewhere, and there is a growing advisory business across Continental Europe.

Working capital performance continues to be a challenge, but there was good progress in the year in addressing specific issues on historic contracts. Overall net average working capital days deteriorated marginally during the year ending at 46 days.

Overall the business expects the uncertainty around Brexit to continue through 2018. However, notwithstanding this, the

current order book and contracted work is reasonable, stronger than 12 months ago, and with good prospects across the sectors.

North and South America

2017 was the first full year of operating since our JV arrangement in North America ended.

The businesses which joined Mott MacDonald, together with other operations that the Group already had in the US and Canada which traded outside the JV arrangement, came together to form a new, 100% Group-owned business which now represents 20% of the Group's revenue.

Looking at business performance in US dollars, gross revenues grew by 8% with profits up 15%, the business focusing on overheads and efficiencies to drive improvement in profit and margin.

There was a strong growth in revenues in the US East business with profit growth matching it, driven by good success with major project wins particularly in the transport sector.

Revenues in the Energy business also increased despite markets slowing. However, increasing competitiveness led to slightly reduced margins in 2017. The business has effectively managed the impact on profit from this slowdown.

The US West business continues to face challenges in a competitive market. However, revenues and profit were both significantly improved on 2016.

Net average working capital days weakened slightly and ended the year at 63 days but with a continued clear focus on working capital management and settlement of old debts. East had a particularly strong performance offset by a weaker performance in West. The order book and contracted work for 2018 are in a slightly weaker position than at this time last year, but prospects remain strong.

Middle East and South Asia

The region represents 10% of the Group's gross revenue and grew 6% over 2016, although this was largely driven by currency.

Strategic report

Profits deteriorated to 49% of the prior year largely due to the ongoing challenges in the Energy sector.

The Middle East infrastructure and the Indian businesses improved their performance whilst the Energy sector saw a reduction in revenues and a sharp decline in profit. Nonetheless, the business has controlled costs well and delivered a reasonable performance in the circumstances, remaining profitable and focused on winning work.

The region's challenges with working capital continued with average net working capital weakening slightly and ending the year on 138 days – too high given our expectations.

Contracted work and the order book for 2018 are in a weaker position than at this time last year.

Asia Pacific and Australasia

The region represents 9% of the Group's gross revenue, and was 11% up on 2016, 4% after currency, with strong growth in Australia and New Zealand offset by weaker growth in Asia.

Profits were significantly up compared with 2016. Australia and New Zealand had good profit growth, Singapore was steady and there was an improved performance in Hong Kong although the business there remained in loss.

There was an improvement in revenues but profits were flat in South East Asia. North East Asia increased revenues but remained in loss. This was due to project losses and overheads not being recovered due to depressed volumes in challenging markets.

Working capital performance remains disappointing although net average working capital days improved to 93 days.

The Australia and New Zealand businesses continued to grow in strong markets, particularly New South Wales and Victoria, and the challenge for 2018 is to continue to build on this success. Singapore has a strong pipeline of opportunity. A focus for 2018 continues to be to improve business performance in Hong Kong and China.

The order book for 2018 is stronger than last year at a regional level.

Global Development and Africa

The business represents 11% of the Group's gross revenue and comprises businesses focused on Africa and International Development. Revenue improved by 16% over 2016 and Africa, although remaining in loss, improved on 2016. The International Development business improved profit on 2016, but was affected by a slowdown in the market in the early part of the year. 2017 has largely been a year of consolidation for the businesses as they prepare a better foundation to respond to improved market conditions when they come.

The order book is at a similar level to last year.

Market position

Mott MacDonald is ranked as the 13th largest international design firm by the USA's Engineering News Record (ENR) magazine. In the Infrastructure Journal's technical advisors league table, we are ranked 1st for the total number of transactions for the 6th consecutive year.

Corporate governance

In reviewing its corporate governance arrangements, changes were introduced at the start of 2016 to make the Executive Board more accountable to the Shareholders' Committee for delivering strategy and operational performance. The Committee has three sub-committees for Audit and Risk; Remuneration and Equity; and Nominations in order to ensure that there is sufficient independent input by senior shareholders and advisors in these areas. Executive Board directors are not members of the Shareholders' Committee or its sub-committees, but attend meetings as required. Further details on the Shareholders' Committee can be found on pages 11 and 12.

Managing risks and uncertainties

Business risks

Business risks are managed through directives, systems and processes. Control is exercised through staff compliance with mandatory directives which require appropriate management authority to be granted before starting activities which may bring risk to the Group. In particular, clearance to commit the Group to activities which may subject the business to unlimited liability requires the written authority of the Group's Managing Director.

Strategic report

Our Business Management System (BMS) is designed to be fully compliant with international standards, or British Standards where international standards are not available. These standards cover quality, safety, ethics, security and environment. Operational risk control was further enhanced by the roll out of process management software to better manage risk and deliver operational efficiencies. The use of this is mandatory across the Group.

Supporting the directives, systems and process controls are the risk management committees at both Group and business unit level. These committees consider the effectiveness of our 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 Group is exposed to liquidity risk, credit risk and exchange risk and has a variety of controls and processes in place to manage these risks to minimise financial loss. The more important aspects are:

- For investments, where viable, all counterparties must meet the Group's minimum credit rating of A-1 long term and P-1 short term.
- The Group does not undertake any speculative trades.
- In evaluating transactional exchange rate risk, the net exposure would be hedged with forward currency contracts, where necessary.
- In evaluating translational exchange rate risk, the Group does not use hedging instruments.
- Credit control procedures are undertaken during the bidding period and for the duration of the contracts.
- Working capital and cash flow targets are monitored and managed on a daily basis, with weekly reporting to the executive team and monthly reporting to the Executive Board.

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

Our outsourced internal audit function was renewed on a new three year contract at the start of 2017, continuing its role as one of the Board's component parts of corporate governance. As well as carrying out typical evaluation of financial controls and processes across the business in 2017, it also carried out reviews of project controls and processes. The team plays an important role and makes an effective contribution in reviewing corporate governance and strategic initiatives. It will increasingly look at the effectiveness and the contribution of central functions, and the various channels of risk management across the business.

During 2017, the main areas of focus brought to management's attention by internal audit were the need for greater consistency in the application of project controls and a more proactive use of our risk management framework to drive strategy and assess opportunity.

Gearing and cash flow

Net average working capital increased by two days to 58. Further improvement is required on the management of work in progress to reduce this to a more acceptable target of 50-55 days. That, along with a greater focus on further reducing project losses and getting better value out of controllable overheads, are priorities to enable us to improve margin, as well as deliver improved ROCE and liquidity across all parts of the business.

Cash balances were broadly unchanged at £106m after a net repayment of £10m of bank loans. The business continues to generate adequate cash flow for operational liquidity and organic growth. Group net cash at 31 December 2017 was £63m, up on the prior year position of £51m, with the Group continuing to rebuild its cash position after the cash outflow from previous year's reorganisation in North America.

Net gearing remained at nil throughout the year. The Group has renewed its £90m committed bank facilities which are now in place until December 2022. At 31 December, £41m of this was utilised on historic acquisitions with £43m having been repaid over the past 3 years. The Group also has bond facilities to provide tender bonds, performance bonds and advance payment bonds in the normal course of business, and has a pension bond in place as security for the UK pension scheme.

Strategic report

Shareholders' equity

Shareholders' equity increased from £103m to £124m. Increases came from profit transferred to reserves of £21m and an FRS 102 accounting pension credit of £9m. These increases were offset by a dividend of £6m; a temporary £2m reduction from internal share transactions in the year and a translation exchange loss of £1m in reserves.

Looking forward

The Group continues to deliver a strategy of focused growth in its core markets where it is well positioned. The current global macroeconomic and political pressures may create uncertainty in the short term, particularly speculation around the way that Britain leaves the EU. This could result in a slowdown in growth in the UK, but our business is global and focused on a number of other geographic markets as part of our strategy. The order book remains resilient and our core markets should provide good opportunity for us to drive the business forward.

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



Mike Haigh, Managing Director
27 February 2018

Shareholders' Committee report

Liz King, Chair



Members

The Shareholders' Committee comprises senior employees from various geographies, business units, sectors and functions, along with two external independent members. On behalf of the employee shareholders, it is responsible for oversight of the Executive Board's performance in setting and delivering the Group's strategy, and achieving operational targets.

Members of the Executive Board cannot be members of this Committee, as its role is to take an objective view of the effectiveness of the Board, and to exercise non-executive oversight of it. The Board generally attends Committee meetings to report on the business, although the Committee also meets in camera.

Remit

The Committee is constituted in accordance with the company's Articles. In addition to its general remit, it has powers to approve proposals from the Board on fundamental matters such as the appointment and removal of directors, significant business acquisitions or disposals, mergers, changes in share capital, major investment proposals, and changes to senior staff compensation and the wider employee incentive scheme.

The Committee meets four times a year and is chaired by one of its members, elected by the other members for a two-year term, which may be renewed once. The role of the external members is to provide an independent perspective based on their experience outside the business and of industry best practice.

Governance

There are three sub-committees of the Shareholders' Committee, assisting it with oversight of a rigorous and objective process for senior appointments, remuneration of staff and directors, and the effectiveness of the company's risk assurance and control environment. Members of the

Board cannot be members of these sub-committees, but may be in attendance to report.

- Nominations Sub-Committee – considers proposals from the Board on director appointments and other senior management appointments and promotions, as well as considering proposals from its members for Shareholders' Committee appointments.
- Remuneration and Equity Sub-Committee – considers proposals from the Board on annual staff salary increments; size and allocation of the discretionary bonus pool; compensation for senior employees including directors and officers; annual dividend and profit retention; and the annual allocation of shares to employees. It will also consider proposals on matters such as the issue of new shares, and changes in the rights attaching to shares.
- Audit and Risk Assurance Sub-Committee – reviews and assesses the adequacy of the Group's risk management processes, control environment and corporate governance including internal and external audit. It highlights to the Shareholders' Committee material matters concerning business improvement, the effectiveness of internal controls, risk management, business conduct, ethics, data security and risk of fraud.

Purpose

The purpose of the Committee and its sub-committees is to enhance the quality of discussion and debate on significant business matters, and to provide a balanced and broad perspective on matters such as risk, client engagement, focus, strategy and public profile.

Ultimately, the Committee and its sub-committees seek to work with the Executive Board to ensure that the culture of the Group is preserved, succession planning and staff development are robust, and that talent development and career profile bring the best people to the Group, reward

Shareholders' Committee report

them for their contribution, and retain them to help grow a successful business.

Significant matters dealt with in the current year have included the appointment of two new Executive Board directors, appointment of five new Committee members, a material review of the company's Articles, implementation of a new strategy of focused growth, and oversight of a major programme of talent management.

Summary

This is the second year of what is a relatively new corporate governance framework. While the focus is on oversight and governance, there are wider intrinsic benefits to the Group, its staff and its shareholders. These come from an improved quality of discussion in senior management meetings, and the achievement of greater traction in delivering strategic objectives and improving business performance, while ensuring that staff and shareholders benefit from a more engaged experience in the workplace, and in developing their careers.

We are a large private company owned by over 2,500 of its senior employees, and the intent of creating this framework is to ensure that we have a structure in place which allows the Group to provide value to its staff, customers and supply chain, be committed to our values and principles, and work effectively with our stakeholders.



Liz King, Chair
27 February 2018

Directors' report

Paul Ferguson, Company Secretary



The directors present their report, together with the audited financial statements of the Group and the company for the year ended 31 December 2017.

Date of Annual General Meeting: 24 March 2018.

Registration

Mott MacDonald Group Limited is a company registered in England and Wales with registered number 1110949.

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.

We are an independent employee-owned company engaged in public and private sector development worldwide.

Our drivers are to add value and deliver benefits for our customers which include national and local governments, health and education bodies, transport operators, industry, utilities, developers, contractors, banks, commercial companies, funding agencies and non-governmental organisations.

Results and dividends

Profit attributable to shareholders before dividend is £21.1m (2016 – £50.7m). The profit is down on the prior year as the 2016 profit was inflated by an unrepresentatively large unrealised exchange gain of £25.5m due to the significant weakening of sterling after the EU referendum. This year's profit is more representative of normal operating levels.

An interim dividend of £5.8m (2016 – £6.5m) was paid to shareholders on 29 December 2017. The directors do not recommend the payment of a final dividend.

Acquisitions and disposals

During the year, the Group acquired the assets and business of Wideurope Engineering Italy S.r.l., a small niche acquisition in the energy sector. The Group also disposed of its investment in MM Pakistan (Private) Limited. These are not material in the context of the Group.

Directors and their interests

The directors of the company during the year ended 31 December 2017 and their interests in the share capital of the company were as follows:

	At 31 December 2017	At 31 December 2016
	Ordinary Shares	Ordinary Shares
Nick DeNichilo	90,000	90,000
Mike Haigh	90,000	85,000
Keith Howells	100,000	125,000
Guy Leonard	110,000	110,000
Ed Roud	85,000	80,000

Ian Galbraith and James Harris were appointed as directors on 1 January 2018.

Employment policies

The company actively encourages employees to play a part in developing the Group's business and in enhancing its performance.

Increasing share ownership worldwide is a key element of this policy. At the end of 2017 the total number of employee shareholders was 2,859 (2016 – 2,753).

In addition, the Group recognises individual contributions through performance bonuses and annual awards. These include our long-standing Milne Award for innovation, the Best Paper Award, the Chairman's Award for customer care and our Community Awards for charitable work.

Directors' report

The company proactively informs staff on general, financial and economic factors influencing the Group, as well as on all matters affecting them directly. This is achieved through our intranet, staff councils and briefings, chairman's emails, local and global staff newsletters, and copies of all the Group's corporate magazines and reports plus our strategic plan summary.

Group 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 Group 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 measures 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, 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 unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and the Group 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 the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group 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 the Group 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 the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group'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:



Paul Ferguson, Company Secretary
27 February 2018

Independent auditor's report

to the members of Mott MacDonald Group Limited

Opinion

We have audited the financial statements of Mott MacDonald Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company 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 group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

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 group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Chairman's statement, Corporate responsibility, Strategic report, Shareholders' Committee report and Directors' report set out on pages 2 to 14 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 and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

Peter Gamson ACA, Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 February 2018

Consolidated income statement and statement of comprehensive income

for the year ended 31 December 2017

Consolidated income statement	Notes	2017 £000	2016 £000
Gross revenue	5	1,548,878	1,407,198
Cost of sales		(990,741)	(884,087)
Gross profit		558,137	523,111
Administrative expenses		(517,993)	(460,170)
Group operating profit	6	40,144	62,941
Income from other fixed asset investments		3	4
Income from current asset investments		704	1,366
Profit on ordinary activities before interest		40,851	64,311
Net interest payable	9	(1,007)	(888)
Other finance cost	25(c)	(2,447)	(2,852)
Profit on ordinary activities before taxation		37,397	60,571
Tax on profit on ordinary activities	10(a)	(16,165)	(9,247)
Profit on ordinary activities after taxation		21,232	51,324
Profit attributable to:			
Owners of the parent company	22	21,102	50,719
Non-controlling interests		130	605
		21,232	51,324

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

Consolidated statement of comprehensive income	Notes	2017 £000	2016 £000
Profit for the financial year		21,232	51,324
Exchange adjustments on translation of net assets of overseas subsidiaries		(910)	(2,643)
Net actuarial gain/(loss) on pension schemes	22, 25(c)	15,186	(26,291)
Deferred tax on actuarial (gain)/loss	10(c), 22	(2,540)	4,296
Deferred tax on additional pension contributions	10(c), 22	(2,656)	(2,487)
Deferred tax rate change on opening pension scheme deficit	10(c), 22	(645)	(465)
Total other comprehensive income/(loss)		8,435	(27,590)
Total comprehensive income for the year		29,667	23,734
Total comprehensive income for the year attributable to:			
Owners of the parent company		29,575	21,672
Non-controlling interests		92	2,062
		29,667	23,734

Consolidated statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Intangible assets	12	52,204	53,648
Tangible assets	13	40,944	30,204
Other fixed asset investments	14(a)	215	262
		93,363	84,114
Current assets			
Debtors	15	493,693	500,742
Investments	14(a)	18,872	18,902
Cash at bank and in hand	27(b)	106,092	106,023
		618,657	625,667
Creditors: amounts falling due within one year	16	(441,576)	(419,517)
		177,081	206,150
Net current assets			
		270,444	290,264
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	17	(41,310)	(54,085)
Provisions for liabilities	20	(25,816)	(26,054)
Net assets excluding pension liability			
		203,318	210,125
Pension liability	25(c)	(78,737)	(106,867)
Net assets including pension liability			
		124,581	103,258
Capital and reserves			
Called up share capital	21	11,713	11,713
Share premium account	22	17,717	17,717
Revaluation reserve	22	814	814
Investment in own shares	22	(13,566)	(10,602)
Profit and loss account	22	107,627	83,001
Equity attributable to owners of the parent company			
		124,305	102,643
Non-controlling interests		276	615
Total capital and reserves			
		124,581	103,258

These financial statements were approved by the board of directors on 27 February 2018.



K J Howells, Chairman

Company statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Investment in subsidiary undertakings	14(b)	347,299	347,299
Current assets			
Debtors	15	45,465	39,779
Cash at bank and in hand	27(b)	175	43
		45,640	39,822
Creditors: amounts falling due within one year	16	(38)	(76)
Net current assets		45,602	39,746
Total assets less current liabilities		392,901	387,045
Creditors: amounts falling due after more than one year	17	(250,000)	(250,000)
Net assets		142,901	137,045
Capital and reserves			
Called up share capital	21	11,713	11,713
Share premium account	22	17,717	17,717
Revaluation reserve	22	2,733	2,733
Profit and loss account		110,738	104,882
Shareholders' equity		142,901	137,045

Mott MacDonald Group Limited reported a profit for the year of £11,672,000 (2016 – £17,011,000).

These financial statements were approved by the board of directors on 27 February 2018.



K J Howells, Chairman

Consolidated and company statement of cash flows

for the year ended 31 December 2017

	Notes	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
Operating activities					
Net cash inflow from operations	27(a)	66,103	81,421	11,695	12,609
Interest paid	9	(1,737)	(1,765)	(5,835)	(6,324)
Taxation:					
UK corporation tax paid		(6,928)	(3,760)	–	–
Overseas tax paid		(7,826)	(14,274)	–	–
		(16,491)	(19,799)	(5,835)	(6,324)
Net cash flow from operating activities		49,612	61,622	5,860	6,285
Investing activities					
Payments to acquire intangible fixed assets	12	(8,222)	(3,804)	–	–
Payments to acquire tangible fixed assets		(23,477)	(13,720)	–	–
Receipts from sales of tangible fixed assets		2,490	851	–	–
Payments to acquire current asset investments	14(a)	(7,636)	(20,537)	–	–
Receipts from sales of current asset investments		7,985	21,271	–	–
Receipts from sales of other fixed asset investments		128	36	–	–
Interest received	9	730	877	94	78
Net cash flow from investing activities		(28,002)	(15,026)	94	78
Financing activities					
Net cash movement on disposal of subsidiary undertaking		(316)	–	–	–
Change in ownership of non-controlling interests		–	(57,359)	–	–
Dividends paid to non-controlling interests		(431)	(10,287)	–	–
(Redemption)/issue of shares classed as financial liabilities		(6)	2	(6)	2
Proceeds of sale of shares		10,300	16,546	–	–
Repurchases of own shares		(12,118)	(10,402)	–	–
Repurchase of shares from employees in subsidiary undertaking		–	(5,930)	–	–
New loans		4,715	22,286	–	–
Repayment of loans		(15,112)	(18,394)	–	–
Repayments of capital element of finance leases and hire purchase contracts		(1,201)	(1,536)	–	–
Equity dividends paid	11	(5,816)	(6,469)	(5,816)	(6,469)
Net cash flow from financing activities		(19,985)	(71,543)	(5,822)	(6,467)
Increase/(decrease) in cash and cash equivalents					
Effect of exchange rates on cash and cash equivalents		(2,283)	9,410	–	–
Cash and cash equivalents at 1 January	27(b)	105,912	121,449	43	147
Cash and cash equivalents at 31 December	27(b)	105,254	105,912	175	43

Consolidated and company statement of changes in equity

for the year ended 31 December 2017

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Called up share capital (note 21)				
At 1 January	11,713	10,032	11,713	10,032
Issue of ordinary shares	–	1,681	–	1,681
At 31 December	11,713	11,713	11,713	11,713
Share premium account (note 22)				
At 1 January	17,717	1,242	17,717	1,242
Issue of ordinary shares	–	16,475	–	16,475
At 31 December	17,717	17,717	17,717	17,717
Revaluation reserve (note 22)				
At 1 January and 31 December	814	814	2,733	2,733
Investment in own shares (note 22)				
At 1 January	(10,602)	(8,158)	–	–
Sale of shares by Employee Trust to employees	10,300	8,940	–	–
Repurchases of shares by Employee Trust from employees	(12,387)	(10,402)	–	–
Surplus on disposal of own shares	(877)	(982)	–	–
At 31 December	(13,566)	(10,602)	–	–
Profit and loss account (note 22)				
At 1 January	83,001	102,265	104,882	94,340
Profit for the year	21,102	50,719	11,672	17,011
Other comprehensive (loss)/income:				
Exchange adjustments on translation of net assets of overseas subsidiaries	(872)	(4,100)	–	–
Net actuarial gain/(loss) on pension schemes (note 25(c))	15,186	(26,291)	–	–
Deferred tax on actuarial (gain)/loss (note 10(c))	(2,540)	4,296	–	–
Deferred tax on additional pension contributions (note 10(c))	(2,656)	(2,487)	–	–
Deferred tax rate change on opening pension scheme deficit (note 10(c))	(645)	(465)	–	–
Total other comprehensive income/(loss) for the year	8,473	(29,047)	–	–
Total comprehensive income for the year	29,575	21,672	11,672	17,011
Adjustment in respect of transaction with non-controlling interests	–	(3,465)	–	–
Surplus on disposal of own shares	877	982	–	–
Dividends (note 11)	(5,816)	(6,469)	(5,816)	(6,469)
Release of capital reserve	(10)	–	–	–
Acquisition of non-controlling interests	–	(31,984)	–	–
At 31 December	107,627	83,001	110,738	104,882
Equity attributable to owners of the parent company	124,305	102,643	142,901	137,045

Consolidated and company statement of changes in equity

(continued)

for the year ended 31 December 2017

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Equity attributable to owners of the parent company	124,305	102,643	142,901	137,045
Non-controlling interests				
At 1 January	615	47,207	–	–
Profit for the year	130	605	–	–
Other comprehensive (loss)/income:				
Exchange adjustments on translation of net assets of overseas subsidiaries	(38)	1,457	–	–
Total comprehensive income for the year	92	2,062	–	–
Repurchases of shares from employees in subsidiary company for cash	–	(5,930)	–	–
Redemptions of shares in subsidiary company	–	(25,548)	–	–
Purchase of shares from employees in subsidiary company in exchange for shares in ultimate parent undertaking	–	(10,354)	–	–
Changes in ownership of non-controlling interest	–	(41,832)	–	–
Adjustment in respect of transaction with non-controlling interests	–	3,465	–	–
Dividends	(431)	(10,287)	–	–
At 31 December	276	615	–	–
Total capital and reserves	124,581	103,258	142,901	137,045
Total capital and reserves				
At 1 January	103,258	153,402	137,045	108,347
Issue of ordinary shares	–	18,156	–	18,156
Sale of shares by Employee Trust to employees	10,300	8,940	–	–
Repurchases of shares by Employee Trust from employees	(12,387)	(10,402)	–	–
Profit for the year	21,232	51,324	11,672	17,011
Other comprehensive income/(loss) for the year	8,435	(27,590)	–	–
Changes in ownership of non-controlling interest	–	(41,832)	–	–
Dividends	(6,247)	(16,756)	(5,816)	(6,469)
Acquisition of non-controlling interests	–	(31,984)	–	–
Release of capital reserve	(10)	–	–	–
At 31 December	124,581	103,258	142,901	137,045

All transactions other than from profit or loss or other comprehensive income are transactions with owners.

Notes to the financial statements

at 31 December 2017

1. Company information

Mott MacDonald Group Limited is a company registered in England and Wales with registered number 1110949. 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 Group and company 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, and investments in subsidiary undertakings which are held at deemed cost since transition to FRS 102.

Basis of consolidation

The Group financial statements consolidate the financial statements of Mott MacDonald Group Limited and its subsidiary undertakings drawn up to 31 December using the purchase method of accounting. The Group income statement includes the results of subsidiary undertakings acquired for the period from the date of their acquisition.

Where subsidiary undertakings have financial year ends other than 31 December, the Group financial statements consolidate their results and net assets based on management accounts drawn up to 31 December.

The profit attributable to members of the company is stated after deducting the proportion attributable to non-controlling interests.

No company income statement is presented for Mott MacDonald Group Limited as permitted by Section 408 of the Companies Act 2006.

Mott MacDonald Employee Trust

The results, assets and liabilities of the Mott MacDonald Employee Trust (‘Employee Trust’) have been included in the Group financial statements.

The costs of purchasing own shares held by the Employee Trust are shown as a deduction in arriving at total shareholders’ equity. The proceeds from the sale of own shares held increase shareholders’ equity. Any gains or losses arising from the sale or repurchase of own shares are reflected directly in reserves and do not affect the consolidated net assets of the Group.

Going concern

After considering the Group’s future prospects, its cash flow forecasts and bank facilities available, the directors have full expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and at least for a period of twelve months from the date the financial statements are signed. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 Group’s contract accounting policy is central to how the Group 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.

Notes to the financial statements

at 31 December 2017

3. Significant judgements and estimates (continued)

Goodwill and other intangible assets

The Group 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 Group 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 Group 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

The Group 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 deductible under the Group'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 schemes

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.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. The Group provides for potential liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Share valuation

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

4. Principal accounting policies

Business combinations

Acquisitions of subsidiaries and 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 Group 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 consolidated statement of financial position immediately below goodwill.

Notes to the financial statements

at 31 December 2017

4. Principal accounting policies (continued)

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 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:

Software	2 to 10 years
Customer relationships	10 years
Forward order book	6 years
Goodwill	5 to 20 years

Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Tangible fixed assets

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

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

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

Gross revenue

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

Notes to the financial statements

at 31 December 2017

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 funds and disbursements are offset with each other in the financial statements.

Gross revenue is recognised in the income statement by reference to the stage of completion of the contract at the statement of financial position date, provided that a right to consideration has been obtained through performance.

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.

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 Group has certain contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. The Group 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 income statement in the year that they are incurred.

Fixed asset investments

Fixed asset investments 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.

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.

Current asset investments

Current asset investments are held by MHACE Insurance Company Limited, the Group's captive insurance company. Current asset investments are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value through profit or loss). Subsequently, they are measured at fair value through profit or loss except for those investments that are not publicly traded and whose fair value cannot otherwise be measured reliably which are recognised at cost less impairment until a reliable measure of fair value becomes available. If a reliable measure of fair value is no longer available, the equity instrument's fair value on the last date the instrument was reliably measurable is treated as the cost of the instrument.

The investments are managed on behalf of the Group by external investment advisors and Group management do not actively participate in the investment process. As a result, it is considered inappropriate to classify such investments as cash equivalents in the statement of cash flows.

Notes to the financial statements

at 31 December 2017

4. Principal accounting policies (continued)

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.

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 Group 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 income statement, other 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 Group 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.

Notes to the financial statements

at 31 December 2017

4. Principal accounting policies (continued)

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in pound sterling (£), which is the company's and Group's presentation currency.

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 in the income statement.

The assets and liabilities of overseas subsidiary undertakings are translated into sterling at the rate of exchange ruling at the statement of financial position date. Income and expenses for each statement of comprehensive income are translated at the average rate of exchange prevailing throughout the year. All resulting exchange differences are recognised in other comprehensive income or loss.

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 Group, 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 income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Employee benefits

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

Pensions

The Group operates a number of pension schemes throughout the world. These are described more fully in note 25.

Pension costs charged against operating profit for the defined contribution schemes are the contributions payable in respect of the accounting period.

All defined benefit schemes are now closed to future accrual of benefits and the surpluses or deficits are determined by the actuaries.

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 Group.

The cost of providing benefits under the defined benefit plans is determined separately for each plan 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 income statement during the period in which it occurs.

Notes to the financial statements

at 31 December 2017

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 income statement as other finance income or cost. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income or loss in the period in which they occur. Remeasurements are not reclassified to the income statement in subsequent periods.

Derivative financial instruments

The Group uses foreign exchange forward contracts to reduce exposure to foreign exchange rates. The Group 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 mainly to one continuing activity, the provision of consulting services, except for JN Bentley Limited which is a building and civil engineering contracting business.

Gross revenue is analysed as follows:

Analysis by destination:

	2017 £000	2016 £000
Europe and Africa	831,121	721,948
Americas	369,405	327,268
Middle East and South Asia	189,567	211,668
Asia Pacific and Australasia	158,785	146,314
	1,548,878	1,407,198

Analysis by type of business:

Consulting services	1,292,408	1,238,479
Building and civil engineering contracting	256,470	168,719
	1,548,878	1,407,198

Notes to the financial statements

at 31 December 2017

6. Operating profit

This is stated after charging/(crediting):

	2017 £000	2016 £000
Auditors' remuneration – audit services – principal auditor for audit of parent company and Group financial statements	307	296
– for audit of subsidiaries by associates of principal auditor	779	619
	1,086	915
– audit services – non-principal auditors for audit of subsidiary companies	136	82
	1,222	997
– non-audit services – principal auditor of parent company other	41	33
– non-audit services – associates of principal auditor taxation	39	41
other	60	18
	140	92
Past service costs in pension schemes (note 25(c))	622	–
Current service costs in pension schemes (note 25(c))	7	76
Foreign exchange losses/(gains)	6,703	(25,523)
Depreciation (note 13)	12,123	11,602
Amortisation of goodwill (note 12)	3,559	4,135
Amortisation of software (note 12)	1,108	776
Amortisation of other intangibles (note 12)	4,767	4,800
Impairment of goodwill	–	1,973
Operating lease rentals – vehicles and equipment	2,610	2,399
– land and buildings	33,541	31,429

7. Directors' remuneration

	2017 £000	2016 £000
Emoluments (excluding pension contributions)	3,580	3,086

The emoluments (excluding pension contributions) of the highest paid director were £869,394 (2016 – £729,428).

During the year £69,703 (2016 – £130,385) of contributions were paid to defined contribution pension plans in respect of 3 directors (2016 – 5), of which £26,736 related to the highest paid director. Some of the directors also have benefits under the closed defined benefit schemes.

Notes to the financial statements

at 31 December 2017

8. Staff costs

	2017 £000	2016 £000
Salaries	713,148	673,058
Social security costs	52,403	47,658
Other pension costs	75,417	71,203
	840,968	791,919

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

	No.	No.
Management	940	917
Technical staff	12,092	12,173
Administrative staff	1,698	1,914
	14,730	15,004
The actual number of permanent staff at 31 December was:	14,929	14,926

9. Net interest payable

	2017 £000	2016 £000
Interest receivable	730	877
Interest payable:		
Bank loans and overdrafts	(1,564)	(1,579)
Finance charges payable under finance leases	(24)	(58)
Other	(149)	(128)
	(1,737)	(1,765)
Net interest payable	(1,007)	(888)

Notes to the financial statements

at 31 December 2017

10. Tax

(a) Tax on profit on ordinary activities

	2017 £000	2016 £000
The taxation charge is made up as follows:		
Current tax:		
UK corporation tax	2,467	7,495
Non-UK tax	13,336	13,919
Capital gains tax – Mott MacDonald Employee Trust	237	149
	16,040	21,563
Double taxation relief	–	(6)
	16,040	21,557
Adjustments in respect of previous years:		
UK corporation tax	577	(4,161)
Non-UK tax	(222)	2,458
Capital gains tax – Mott MacDonald Employee Trust	(86)	(583)
	16,309	19,271
Deferred tax:		
Origination and reversal of timing differences	(2,722)	(5,032)
Adjustments in respect of previous years	(585)	(1,614)
Deferred tax on unremitted earnings	–	(3,922)
Effect of decreased tax rate on opening balance	3,163	544
	(144)	(10,024)
Tax on profit on ordinary activities (note 10(b))	16,165	9,247

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £3,185,000 charge (2016 – £3,831,000 credit).

Notes to the financial statements

at 31 December 2017

10. Tax (continued)

(b) Factors affecting tax charge for the year

The tax provided for the period is higher (2016 – lower) than the amount computed at the average rate of corporation tax in the UK of 19.25% (2016 – 20%). The differences are explained below. The average rates reflect the reduction in the UK corporation tax rate substantively enacted on 18 November 2015 from 20% to 19% with effect from 1 April 2017.

A further 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.

A reduction in the US federal tax rate to 21%, effective from 1 January 2018, was substantively enacted on 22 December 2017 under the Tax Cuts and Jobs Act. This should result in a reduction in the Group's effective tax rate in future years. However in the current year the reduction in the federal tax rate has been taken into account in calculating the deferred tax balances relating to the Group's US businesses, resulting in an increase in the effective tax rate.

	2017 £000	2016 £000
Profit on ordinary activities before taxation	37,397	60,571
Profit on ordinary activities before taxation multiplied by the average rate of corporation tax in the UK of 19.25% (2016 – 20%).	7,199	12,114
Effects of:		
Tax losses	4,079	6,317
Higher/(lower) taxes on non-UK earnings	4,744	(1,101)
Adjustments in respect of previous years	(316)	(3,900)
Pension contributions	(2,888)	(2,856)
Timing differences not provided	192	72
Impact of tax rate changes	3,318	569
Other permanent differences	(163)	(1,968)
Tax on profit on ordinary activities (note 10(a))	16,165	9,247

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 Group has tax losses of £76,972,000 (2016 – £57,382,000) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose. The losses are mainly in South Africa and India. Deferred assets have not been recognised in respect of £57,728,000 of these losses as there is significant uncertainty over whether the subsidiary undertakings in which they have arisen will generate sufficient taxable profits in future years to allow the losses to be utilised.

Notes to the financial statements

at 31 December 2017

10. Tax (continued)

(c) Deferred tax

Group

	2017 £000	2016 £000
The deferred tax included in the statement of financial position is as follows:		
Included in debtors (note 15)	32,126	39,935
Included in provisions for liabilities (note 20)	(5,254)	(6,096)
	26,872	33,839
The elements of deferred taxation are as follows:		
Excess of book depreciation over tax allowances on fixed assets	2,475	2,379
Amortisation of intangible assets	(4,680)	(4,792)
Pension liability (note 25(c))	13,870	19,402
Accrued expenses and provisions	11,446	14,329
Losses	5,259	4,150
Other timing differences	(1,498)	(1,629)
	26,872	33,839
The movement in the year was:		
At 1 January	33,839	18,830
Deferred tax credit in the income statement (note 10(a))	144	10,024
Deferred tax (charge)/credit in the statement of comprehensive income		
– on net actuarial (gain)/loss in pension schemes (note 22)	(2,540)	4,296
– on additional pension contributions made during the year (note 22)	(2,656)	(2,487)
– due to effect of rate change on opening balance of pension scheme (note 22)	(645)	(465)
Impact of disposals	(241)	922
Exchange and other adjustments	(1,029)	2,719
At 31 December	26,872	33,839
The amount of the net reversal of deferred tax expected to occur next year is £nil (2016 – £nil).		

Notes to the financial statements

at 31 December 2017

11. Dividends

	2017 £000	2016 £000
The following dividends were paid during the year:		
Ordinary:		
Interim dividend paid per share (2017 – 55p; 2016 – 60p)	5,816	6,469

The trustees of the Mott MacDonald Employee Trust waived the dividend on their 1,139,137 ordinary shares (held at the relevant date for dividend purposes) amounting to £626,525.

12. Group intangible fixed assets

2017	Goodwill £000	Software £000	Other intangibles £000	Total £000
Cost:				
At 1 January	95,987	9,934	42,697	148,618
Exchange adjustments	(97)	(358)	(167)	(622)
Additions	223	7,999 ¹	–	8,222
Disposals	–	(145)	–	(145)
At 31 December	96,113	17,430	42,530	156,073
Amortisation:				
At 1 January	78,321	5,320	11,329	94,970
Exchange adjustments	(49)	(300)	(89)	(438)
Provided during the year	3,559	1,108	4,767	9,434
Disposals	–	(97)	–	(97)
At 31 December	81,831	6,031	16,007	103,869
Net book value:				
At 31 December	14,282	11,399	26,523	52,204
At 1 January	17,666	4,614	31,368	53,648

The goodwill carrying value at 31 December 2017 is £14,282,000 of which the single largest element relates to the acquisition of Bentley Holdings Limited made in 2014 (£6,332,000).

¹During the year, £6,361,000 has been capitalised in relation to costs of development of a new IT system which had not been brought into use by the end of the year.

The £26,523,000 other intangibles comprise customer relationships (£24,279,000) and forward order book (£2,244,000). These mainly relate to the acquisition of Bentley Holdings Limited.

Notes to the financial statements

at 31 December 2017

13. Group tangible fixed assets

2017	Freehold land & buildings £000	Motor vehicles £000	Fixtures, fittings & equipment £000	Total £000
Cost:				
At 1 January	119	4,918	95,472	100,509
Exchange adjustments	(3)	(123)	(3,160)	(3,286)
Additions	–	1,674	22,789	24,463
Disposal of subsidiary	–	(275)	(555)	(830)
Disposals	(116)	(611)	(9,340)	(10,067)
At 31 December	–	5,583	105,206	110,789
Depreciation:				
At 1 January	80	2,866	67,359	70,305
Exchange adjustments	(2)	(109)	(2,383)	(2,494)
Provided during the year	6	943	11,174	12,123
Disposal of subsidiary	–	(226)	(376)	(602)
Disposals	(84)	(571)	(8,832)	(9,487)
At 31 December	–	2,903	66,942	69,845
Net book value:				
At 31 December	–	2,680	38,264	40,944
At 1 January	39	2,052	28,113	30,204

Included in the above figures for motor vehicles are vehicles held under finance leases with a net book value of £nil (2016 – £39,000). In addition, the above figures for fixtures, fittings and equipment include plant and machinery held under finance leases with a net book value of £1,551,000 (2016 – £2,309,000).

Notes to the financial statements

at 31 December 2017

14. Investments

(a) Group

Other fixed asset investments

2017
£000

Cost:	
At 1 January	262
Disposals	(47)
At 31 December	215

The principal activity of the businesses comprising other fixed asset investments is that of consulting engineers.

Current asset investments

2017 2016
£000 £000

Valuation:		
At 1 January	18,902	18,652
Additions	7,636	20,537
Disposals	(7,608)	(20,398)
Fair value adjustments	(58)	111
At 31 December	18,872	18,902
Investments:		
Listed on the London Stock Exchange	18,872	18,902

Current asset investments are held by MHACE Insurance Company Limited, the Group's captive insurance company. The historical cost of current asset investments is £18,088,000 (2016 – £18,060,000).

Notes to the financial statements

at 31 December 2017

14. Investments (continued)

(b) Company

Subsidiary undertakings

	2017 £000
Cost or deemed cost:	
At 1 January and 31 December	<u>349,637</u>
Amounts provided:	
At 1 January and 31 December	<u>2,338</u>
Net book value:	
At 1 January and 31 December	<u>347,299</u>

The total historical cost of interests in subsidiary undertakings is £346,510,000 (2016 – £346,510,000).

Subsidiary undertakings held at cost or written down value amount to £334,091,000 (2016 – £334,091,000).

Subsidiary undertakings held at deemed cost amount to £13,208,000 (2016 – £13,208,000), the historical cost of which amounts to £10,081,000 (2016 – £10,081,000).

Notes to the financial statements

at 31 December 2017

14. Investments (continued)

(c) Principal subsidiaries

The company's principal subsidiary undertakings at 31 December 2017 are shown below. All of these undertakings have coterminous year ends with the exception of Mott MacDonald Private Limited which has a year end of 31 March due to local regulations. The main activities of these are almost entirely those of engineering, management and development consultancies, except for MHACE Insurance Company Limited which is an insurance company, Mott MacDonald International Limited which is an investment company and JN Bentley Limited which is a building and civil engineering contractor.

Subsidiary undertaking	% held of ordinary share capital		Country of incorporation/registration
	2017	2016	
Habtec Engenharia Sanitaria e Ambiental Ltda	100	100	Brazil
JN Bentley Limited	100	100	England and Wales
MHACE Insurance Company Limited	100	100	Guernsey
Mott MacDonald & Company LLC	65	65	Oman
Mott MacDonald (Beijing) Limited	100	100	China
Mott MacDonald (Malaysia) Sdn. Bhd. ¹	100	100	Malaysia
Mott MacDonald Africa (Proprietary) Limited ²	49	70	South Africa
Mott MacDonald Australia Pty Limited	100	100	Australia
Mott MacDonald B.V.	100	100	The Netherlands
Mott MacDonald Canada Limited	100	100	Canada
Mott MacDonald CZ, spol. s r.o.	100	100	Czech Republic
Mott MacDonald France SAS	100	100	France
Mott MacDonald Group, Inc.	100	100	United States of America
Mott MacDonald Hong Kong Limited	100	100	China (Hong Kong)
Mott MacDonald International Limited ¹	100	100	England and Wales
Mott MacDonald Ireland Limited	100	100	Republic of Ireland
Mott MacDonald Limited ¹	100	100	England and Wales
Mott MacDonald New Zealand Limited	100	100	New Zealand
Mott MacDonald Polska Spolka z o.o.	100	100	Poland
Mott MacDonald Private Limited	100	100	India
Mott MacDonald Singapore Pte Limited	100	100	Singapore
Mott MacDonald, Inc.	100	100	United States of America
PT Mott MacDonald Indonesia	100	100	Indonesia

¹investment not held through subsidiary undertaking

²although the holding in ordinary shares is less than 50%, other indicators of control have been taken into account in determining that this is a subsidiary and in calculating the non-controlling interest.

A full list of subsidiary undertakings is separately detailed in note 29.

Notes to the financial statements

at 31 December 2017

15. Debtors

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade debtors	219,991	218,292	–	–
Amounts recoverable on contracts	195,737	191,698	–	–
Amounts owed by subsidiary undertakings	–	–	45,462	39,773
Amounts owed by other fixed asset investments	675	1,089	–	–
Deferred taxation (note 10(c))	32,126	39,935	–	–
Taxation recoverable	9,713	11,110	–	–
Other debtors	11,748	11,994	3	6
Prepayments and accrued income	23,703	26,624	–	–
	493,693	500,742	45,465	39,779

Deferred taxation is recoverable after more than one year.

Amounts owed by subsidiary undertakings of £45,462,000 in the company statement of financial position is a loan from Mott MacDonald Group Limited to Mott MacDonald Limited. Interest on this loan is charged at bank rate. The intention is that this loan will not be called up at short notice if doing so would cause the subsidiary undertaking to be unable to meet its liabilities as they fall due.

Trade debtors are shown net of a provision for impairment of £18,908,000 (2016 – £23,596,000).

16. Creditors: amounts falling due within one year

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Current instalments due on unsecured bank and other loans (note 18)	91	514	–	–
Bank overdrafts (note 27(b))	838	111	–	–
Payments on account	174,934	164,797	–	–
Amounts due to other fixed asset investments	125	27	–	–
Trade creditors	46,876	41,358	–	–
Current UK corporation tax	299	149	–	–
Non-UK taxation	10,415	11,319	–	–
Other taxes	11,610	11,587	–	–
Social security	12,558	11,482	–	–
Shares classed as financial liabilities (note 21)	33	39	33	39
Obligations under finance leases (note 19)	521	771	–	–
Other creditors	20,160	17,636	5	37
Accruals	163,116	159,727	–	–
	441,576	419,517	38	76

Amounts relating to goods received not invoiced and accrued subcontractor costs totalling £15,322,000 have been reclassified from trade creditors to accruals in the comparative figures as they related to amounts for which invoices had not been received at the statement of financial position date.

Notes to the financial statements

at 31 December 2017

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Unsecured bank loans (note 18)	41,198	53,966	–	–
Unsecured other loans (note 18)	–	20	–	–
Obligations under finance leases (note 19)	112	99	–	–
Amounts owed to subsidiary undertakings	–	–	250,000	250,000
	41,310	54,085	250,000	250,000

Amounts owed to subsidiary undertakings of £250,000,000 in the company statement of financial position is a loan from Mott MacDonald Limited to Mott MacDonald Group Limited. Interest on this loan is charged at a rate of LIBOR + 2%.

18. Loans

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Wholly repayable within five years	41,289	54,500	–	–

The £41.3m loans mainly relate to amounts drawn down on the committed secured revolving credit facility which is in place until 15 December 2022 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:

Group

	Land and buildings		Other	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts payable:				
Within one year	28,362	29,572	1,796	2,269
In two to five years	88,022	84,397	1,765	1,781
Over five years	72,500	76,260	–	–
	188,884	190,229	3,561	4,050

Obligations under finance leases, included within creditors, are analysed as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Wholly repayable within five years	633	870	–	–

Notes to the financial statements

at 31 December 2017

20. Provisions for liabilities

Group

2017	Provision for losses on contracts £000	Deferred taxation Note 10(c) £000	Other provisions £000	Total £000
At 1 January	6,385	6,096	13,573	26,054
Exchange adjustments	(322)	–	–	(322)
Arising during the year	4,408	–	4,558	8,966
Utilised	(2,947)	(842)	(5,093)	(8,882)
At 31 December	7,524	5,254	13,038	25,816

Other provisions are mainly in respect of outstanding claims within MHACE Insurance Company Limited, the Group's captive insurance company.

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

Deferred tax is expected to reverse over six years.

21. Share capital

Allotted, called up and fully paid

	2017 No.	2016 No.	2017 £000	2016 £000
Ordinary shares of £1 each	11,713,212	11,713,212	11,713	11,713
Convertible deferred shares of 1p each (classified as a liability) (note 16)	3,342,080	3,868,780	33	39
			11,746	11,752

Ownership of the issued ordinary shares is divided between employees and the Mott MacDonald Employee Trust ('Employee Trust').

Ownership of the shares by employees means that the company is independent from external shareholders' influence on the long term development of the company. It is employees who make a major contribution to the company's long term strategy and development and everything earned from developing the company is returned to employees who have worked hard to create it.

The Employee Trust has been in place since 1986. Its purpose is to support the framework of employee share ownership within the Group. The Employee Trust acts as a warehouse to ensure that the internal market for shares 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 company and the Employee Trust buys shares at fair value sold by employee shareholders.

Notes to the financial statements

at 31 December 2017

21. Share capital (continued)

The Employee Trust is not used to make conditional benefits available to employees or employee shareholders.

Shares are not gifted to employees and there are no option schemes that exist. As such, there is no share-based payment arrangement reflected in these financial statements. Shares are only bought and sold at fair value.

The convertible deferred shares were offered for cash at par to former employees of the company or any of its subsidiary undertakings who held ordinary shares of the company for more than five years but who had ceased to be such holders by virtue of a 'Qualifying Sale' as more particularly described in the Articles of Association. On the occurrence of a 'Specified Event' as described in the Articles of Association, the convertible deferred shares (together with a corresponding number of unclassified shares) will be converted into ordinary shares of the company. The convertible deferred shares carry no voting rights and no entitlement to dividends or any surplus on winding up. The convertible deferred shares are disclosed as current liabilities rather than as share capital (see note 16), and are held at fair value, which approximates their nominal value.

From 9 April 2016, the company no longer issues convertible deferred shares. The company instead offers, to a subscriber holding qualifying shares, the right to receive the cash equivalent amount that the subscriber would have been entitled to upon the occurrence of a conversion event had the subscriber been issued with the appropriate number of convertible deferred shares by reason of one or more qualifying events.

22. Reserves

Group

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Revaluation reserve

This reserve relates to revaluation of current asset investments held by MHACE Insurance Company prior to transition to FRS 102.

Investment in own shares

This reserve records the value of shares held by the Employee Trust, which is consolidated in these financial statements. Shares held by the Employee Trust are shown as a deduction in arriving at total shareholders' equity.

Company

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Revaluation reserve

This reserve records revaluation of investments in subsidiary undertakings which were held at valuation prior to transition to FRS 102.

Notes to the financial statements

at 31 December 2017

22. Reserves (continued)

Group

Profit and loss account

	Excluding pension deficit £000	2017 Pension deficit £000	Including pension deficit £000	2016 Including pension deficit £000
At 1 January	169,218	(86,217)	83,001	102,265
Exchange adjustments on translation of net assets of overseas subsidiaries	(1,099)	227	(872)	(4,100)
Profit attributable to owners of the parent company	21,102	–	21,102	50,719
Dividends (note 11)	(5,816)	–	(5,816)	(6,469)
Transfer in respect of additional pension contributions (net of deferred tax)	(12,948)	12,948	–	–
Deferred tax on additional pension contributions (note 10(c))	(2,656)	–	(2,656)	(2,487)
Deferred tax rate change on opening scheme deficit (note 10(c))	–	(645)	(645)	(465)
Adjustment in respect of transaction with non-controlling interests	–	–	–	(3,465)
Net actuarial gain/(loss) on pension schemes (note 25(c))	–	15,186	15,186	(26,291)
Deferred tax on net actuarial (gain)/loss (note 10(c))	–	(2,540)	(2,540)	4,296
Acquisition of non-controlling interests	–	–	–	(31,984)
Other finance cost (net of deferred tax)	2,052	(2,052)	–	–
Current service cost (net of deferred tax)	6	(6)	–	–
Past service cost (net of deferred tax)	519	(519)	–	–
Release of capital reserve	(10)	–	(10)	–
Surplus on disposal of own shares	877	–	877	982
At 31 December	171,245	(63,618)	107,627	83,001

The pension deficit of £63,618,000 above differs from the pension liability in the statement of financial position of £78,737,000 by £15,119,000. This difference relates to the pre-acquisition elements of the pension deficits in JN Bentley Limited and Multi Design Holdings Limited of £717,000 and £532,000 respectively and the deferred tax arising on the Group pension liability of £13,870,000.

The net cumulative goodwill written off directly against reserves prior to goodwill being capitalised on the statement of financial position amounts to £1,995,000 (2016 – £1,995,000); and that credited to reserves amounts to £2,444,000 (2016 – £2,444,000).

Notes to the financial statements

at 31 December 2017

23. Capital commitments

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

24. Contingent liabilities

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Guarantee of bank loans and overdrafts in respect of other Group companies	–	–	42,152	54,030

In addition, in the normal course of business, down payment, performance and tender bonds have been given by certain subsidiary undertakings. 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

(a) Mott MacDonald Pension Schemes

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

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

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

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 Group 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. Total pension contributions were £37.1m (2016 – £34.8m).

Costs relating to the remaining defined benefit section of MMPS were £15.2m (2016 – £15.2m). These costs include both administrative expenses relating to MMPS and an instalment of £14.5m 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 Group'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 Group.

Notes to the financial statements

at 31 December 2017

25. Pensions and other retirement benefits (continued)

(a) Mott MacDonald Pension Schemes (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 remaining at 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 2017 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 Group and the trustees regularly review the funding level of MMPS with the advice of the actuary. During 2017 minimum contributions of £14.5m were paid to MMPS. Under the current funding plan these will be £15.1m in 2018 and are then predicted to increase at 3.9% per annum.

In agreeing the latest recovery plan with the trustees of the UK defined benefit pension scheme, the Group 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 2017 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 Group 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.

(b) Other pension schemes

In the USA, there is the Mott MacDonald Defined Benefit Pension Plan (frozen as of March 31, 1995). This is a defined benefit scheme which is closed to new members and future accrual of benefits. An interim report was prepared by a qualified actuary at 31 December 2017 for disclosure purposes which showed that the total market value of the assets of the scheme was US\$14.3m (2016 – US\$13.4m) and the liabilities were US\$20.7m (2016 – US\$20.3m) resulting in a deficit of US\$6.4m at 31 December 2017 (2016 – US\$6.9m).

In the Republic of Ireland, there is a further defined benefit scheme which is also closed to new members and future accrual of benefits. An interim report was prepared by a qualified actuary at 31 December 2017 for disclosure purposes which showed that the total market value of the assets of the scheme was €9.2m (2016 – €8.7m) and the liabilities were €10.3m (2016 – €11.0m) resulting in a deficit of €1.1m at 31 December 2017 (2016 – €2.3m).

Notes to the financial statements

at 31 December 2017

25. Pensions and other retirement benefits (continued)

(b) Other pension schemes (continued)

The Bentley Holdings Limited group, which is in the UK, includes a defined benefit scheme which is sponsored by its wholly owned subsidiary JN Bentley Limited. It is also closed to new members and future accrual of benefits. An interim report was prepared by a qualified actuary at 31 December 2017 for disclosure purposes which showed that the total market value of the assets of the scheme was £9.5m (2016 – £8.4m) and the liabilities were £14.1m (2016 – £12.2m) resulting in a deficit of £4.6m at 31 December 2017 (2016 – £3.8m).

These pension schemes are not material in the context of the Group financial statements.

(c) Group pension schemes

The assets and liabilities of the Mott MacDonald Pension Scheme ('MMPS') are analysed below:

	2017 £m	2016 £m
Change in defined benefit obligation		
Defined benefit obligation at 1 January	(669.8)	(592.2)
Interest cost	(18.3)	(21.9)
Actuarial losses	(9.5)	(87.7)
Benefits paid	34.4	32.0
Defined benefit obligation at 31 December	(663.2)	(669.8)
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	(663.2)	(669.8)
Change in plan assets		
Fair value of plan assets at 1 January	574.3	507.3
Interest income on MMPS assets	15.8	18.9
Actuarial gains on MMPS assets	24.6	66.1
Employer contributions	14.5	14.0
Benefits paid	(34.4)	(32.0)
Fair value of plan assets at 31 December	594.8	574.3
Funded status of MMPS	(68.4)	(95.5)
Net amount recognised in respect of MMPS	(68.4)	(95.5)
Deficit in MMPS	(68.4)	(95.5)
Deficit in other Group schemes	(10.3)	(11.4)
Total deficit in Group schemes excluding deferred tax (as reported in the statement of financial position)	(78.7)	(106.9)
Related deferred tax asset (note 10(c))	13.9	19.4
Net pension liability	(64.8)	(87.5)

Notes to the financial statements

at 31 December 2017

25. Pensions and other retirement benefits (continued)

(c) Group pension schemes (continued)

Components of pension income/(cost)

Year to 31 December	2017 £m	2016 £m
Total pension cost recognised in administrative expenses in arriving at operating profit		
– for MMPS	–	–
– for other Group schemes	(0.6)	(0.1)
	(0.6)	(0.1)
Interest cost on MMPS liabilities	(18.3)	(21.9)
Interest income on MMPS assets	15.8	18.9
Net pension interest (cost)/income recognised within other finance cost in the income statement		
– for MMPS	(2.5)	(3.0)
– for other Group schemes	0.1	0.1
	(2.4)	(2.9)
Actuarial losses on MMPS liabilities	(9.5)	(87.7)
Actuarial gains on MMPS assets	24.6	66.1
Net actuarial gains/(losses) immediately recognised for MMPS	15.1	(21.6)

Notes to the financial statements

at 31 December 2017

25. Pensions and other retirement benefits (continued)

(c) Group pension schemes (continued)

Components of pension income/(cost) (continued)

Year to 31 December	2017 £m	2016 £m
Total pension income/(cost) recognised in other comprehensive income/(loss)		
– for MMPS	15.1	(21.6)
– for other Group schemes	0.1	(4.7)
	15.2	(26.3)

Plan assets

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

	2017 %	2016 %
Asset category		
Liability driven investment	57	58
Diversified growth funds	32	37
Equities	5	5
Corporate bonds	5	–
Cash	1	–
	100	100

Actual return on plan assets

Year to 31 December	2017 £m	2016 £m
Interest income on MMPS assets	15.8	18.9
Actuarial gains on MMPS assets	24.6	66.1
Actual return on plan assets – for MMPS	40.4	85.0

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

	2017 %	2016 %
RPI inflation	3.2	3.2
Discount rate for scheme liabilities	2.6	2.8
CPI inflation	2.1	2.1
Pension increases (inflationary increases with a maximum of 5% p.a.)	2.1	2.1
Salary increases	n/a	n/a

Notes to the financial statements

at 31 December 2017

25. Pensions and other retirement benefits (continued)

(c) Group pension schemes (continued)

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

	2017		2016	
	Male Years	Female Years	Male Years	Female Years
Member age 60 (current life expectancy)	28.4	29.5	28.6	29.8
Member age 40 (life expectancy at age 60)	29.5	31.1	29.9	31.8

26. Related party transactions

The company has taken advantage of the provisions in Section 33.1A of FRS 102 not to disclose transactions with wholly owned subsidiary undertakings.

Key management personnel

The Group's directors are considered to be its key management personnel. Directors' remuneration is set out in note 7.

Notes to the financial statements

at 31 December 2017

27. Notes to the statement of cash flows

(a) Reconciliation of profit on ordinary activities before taxation to net cash inflow from operations

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Profit on ordinary activities before taxation	37,397	60,571	11,672	17,011
Adjustments to reconcile profit before taxation for the year to net cash inflow from operations:				
Depreciation	12,123	11,602	–	–
Amortisation of intangible assets	9,434	9,711	–	–
Impairment of goodwill	–	1,973	–	–
Fair value adjustments on current asset investments	58	(111)	–	–
Pension contributions	(15,604)	(14,747)	–	–
Past service cost	622	–	–	–
Current service cost	7	76	–	–
Profit on disposal of other fixed asset investments	(81)	(8)	–	–
Profit on disposal of tangible fixed assets	(1,910)	(448)	–	–
Loss on disposal of intangible fixed assets	48	2	–	–
Profit on disposal of current asset investments	(377)	(873)	–	–
Loss on disposal of subsidiary undertakings	2,378	–	–	–
Net interest payable	1,007	888	5,741	6,246
Other finance cost	2,447	2,852	–	–
Increase in debtors	(7,084)	(71,157)	(5,686)	(10,682)
Increase/(decrease) in creditors	25,033	75,961	(32)	34
Increase in provisions for liabilities	605	5,129	–	–
Net cash inflow from operations	66,103	81,421	11,695	12,609

(b) Cash and cash equivalents

Cash and cash equivalents comprise the following:

At 31 December	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and in hand	106,092	106,023	175	43
Bank overdrafts (note 16)	(838)	(111)	–	–
Cash and cash equivalents	105,254	105,912	175	43

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Notes to the financial statements

at 31 December 2017

28. Financial assets and liabilities

	Notes	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
Financial assets at fair value through profit or loss					
Listed investments	14(a)	18,872	18,902	–	–
Financial assets that are equity instruments measured at cost less impairment					
Other fixed asset investments	14(a)	215	262	–	–
Financial assets that are debt instruments measured at amortised cost¹					
Trade debtors	15	219,991	218,292	–	–
Amounts owed by subsidiary undertakings	15	–	–	45,462	39,773
Amounts owed by other fixed asset investments	15	675	1,089	–	–
Other debtors	15	11,748	11,994	3	6
Financial liabilities at fair value through profit or loss					
Shares classed as financial liabilities	16, 21	33	39	33	39
Financial liabilities measured at amortised cost¹					
Bank overdrafts	16	838	111	–	–
Amounts due to other fixed asset investments	16	125	27	–	–
Trade creditors	16	46,876	41,358	–	–
Other creditors	16	20,160	17,636	5	37
Amounts owed to subsidiary undertakings	17	–	–	250,000	250,000
Loans	18	41,289	54,500	–	–
Obligations under finance leases	19	633	870	–	–

The fair values of the assets and liabilities held at fair value through profit or loss at the statement of financial position date are determined using quoted prices.

There were no derivative financial instruments at the year end (2016 – £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).

Financial risks

The Group has a variety of controls in place to manage liquidity risk, credit risk and exchange risk, and minimise financial loss. The more important aspects are:

- For investments, where viable, all counterparties must meet the Group's minimum credit rating of A-1 long term and P-1 short term.
- There is no speculative use of derivatives, currency or other instruments.

Notes to the financial statements

at 31 December 2017

29. Subsidiary undertakings

Subsidiary undertaking by country of incorporation/registration	% held of ordinary share capital	Registered office key
United Kingdom		
Bentley Holdings Limited	100	A
Cambridge Education Associates Limited	100	B
Cambridge Education Consultants Limited	100	B
Cambridge Education Limited ¹	100	B
Consortium Services Limited ¹	100	C
Courtyard Group UK Limited	100	B
Ewbank and Partners Limited ¹	100	B
Ewbank Preece Consulting Limited ¹	100	B
Ewbank Preece Limited ¹	100	B
Franklin & Andrews International Limited	100	B
Franklin & Andrews Limited ¹	100	B
Franklin Osprey Services Limited	100	B
Fulcrum First Limited	100	B
HLSP Limited	100	B
JBA Bentley Limited	75	A
JN Bentley Limited	100	A
John Proctor Travel Limited ¹	100	B
MIME Learning Limited ¹	100	D
MMG Consulting Limited	100	B
MMRA Limited	100	B
Mott Hay & Anderson International Limited ¹	100	B
Mott MacDonald Bentley Limited	100	A
Mott MacDonald Engineering Consultants Limited ¹	100	B
Mott MacDonald Gas Experts Limited	100	B
Mott MacDonald International Limited ¹	100	B
Mott MacDonald Limited ¹	100	B
Mott MacDonald Nominees ¹	100	B
Mott MacDonald SA Limited ¹	100	B
Mott MacDonald Trustees Limited ¹	100	B
MRT Consulting Engineers Limited	100	B
Multi Design Consultants Limited	100	B
Multi Design Holdings Limited ¹	100	B
Needlemans Limited ¹	100	B
Osprey PMI Limited	100	B
Power Ink Limited	100	B
Preece Cardew & Rider Limited ¹	100	B
Procyon Oil & Gas Limited	100	E
Project Management International Limited	100	B
Schema Associates Limited ¹	100	B
Sir M MacDonald & Partners Limited ¹	100	B
Sterling Management Limited ¹	100	B
Teamwork Management Services Limited ¹	100	B
Australia		
AWT Water Pty Limited	100	F
Mortimer Project Management Pty Limited	100	G
Mott MacDonald Australia Pty Limited	100	F
Mott MacDonald Hughes Trueman Pty Limited	100	F
Botswana		
Merz & McLellan Botswana (Pty) Limited	100	H

Notes to the financial statements

at 31 December 2017

29. Subsidiary undertakings (continued)

Subsidiary undertaking by country of incorporation/registration	% held of ordinary share capital	Registered office key
Botswana (continued)		
PDNA Botswana (Proprietary) Limited	100	I
Brazil		
Habtec Engenharia Sanitaria e Ambiental Ltda	100	J
Bulgaria		
Mott MacDonald (Bulgaria) EOOD	100	K
Canada		
Mott MacDonald Canada Limited	100	L
China		
Mott MacDonald (Beijing) Limited	100	M
Mott MacDonald (Shenzhen) Limited	100	N
China (Hong Kong)		
Franklin & Andrews (Hong Kong) Limited	100	O
Mott MacDonald Consultants (HK) Limited	100	O
Mott MacDonald Hong Kong Limited	100	O
China (Macau)		
Mott MacDonald Macau Limited	100	P
Colombia		
Mott MacDonald Colombia SAS	100	Q
Czech Republic		
Mott MacDonald CZ, spol. s r.o.	100	R
Congo, Democratic Republic of the		
Mott MacDonald DRC SASU	100	S
Egypt		
Mott MacDonald (Egypt) Limited	100	T
Finland		
Mott MacDonald Finland Oy	100	U
France		
Mott MacDonald France SAS	100	V
Guernsey		
MHACE Insurance Company Limited	100	W
Hungary		
Mott MacDonald Magyarország Kft	100	X
India		
Mott MacDonald Private Limited	100	Y
Indonesia		
PT Mott MacDonald Indonesia	100	Z
Ireland		
Ewbank Preece O'hEocha Limited	100	AA
Franklin & Andrews (Ireland) Limited	100	AA
Mott MacDonald Ireland Limited	100	AA
Mott MacDonald Pettit Engineering Limited	100	AA
Somin Holdings Limited	100	AA
Italy		
Mott MacDonald Italy S.r.l.	100	AB
Japan		
Mott MacDonald Japan KK	100	AC
Kazakhstan		
Mott MacDonald Kazakhstan LLP	100	AD

Notes to the financial statements

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29. Subsidiary undertakings (continued)

Subsidiary undertaking by country of incorporation/registration	% held of ordinary share capital	Registered office key
Kenya		
Mott MacDonald Kenya Limited	100	AE
Malawi		
Mott MacDonald Blantyre Limited	100	AF
Malaysia		
Mott MacDonald (Malaysia) Sdn. Bhd. ¹	100	AG
Mauritius		
PDNA Consulting (Mauritius) Limited	100	AH
PDNA Trading Limited	100	AI
Mongolia		
Mott MacDonald Mongolia LLC	100	AJ
Mozambique		
PDNA Mozambique LDA	100	AK
Netherlands		
BMB Mott MacDonald B.V.	100	AL
Euroconsult Mott MacDonald B.V.	100	AL
Mott MacDonald B.V.	100	AL
New Zealand		
Mott MacDonald New Zealand Limited	100	AM
Nigeria		
Cambridge Education Nigeria Limited	100	AN
Mott MacDonald (Nigeria) Limited	100	AO
MRT Consulting Engineers (Nigeria) Limited	100	AP
Norway		
Mott MacDonald Norge AS	100	AQ
Oman		
Mott MacDonald & Company LLC	65	AR
Philippines		
Mott MacDonald (Philippines) Inc	100	AS
Poland		
Mott MacDonald Poland Spolka z o.o.	100	AT
Mott MacDonald Polska Spolka z o.o.	100	AU
Romania		
Mott MacDonald Romania SRL	100	AV
SC Educatia 2000+ Consulting SRL	100	AW
Russia		
Mott MacDonald R Limited Liability Company	100	AX
Serbia		
Mott MacDonald S d.o.o.	100	AY
Sierra Leone		
Mott MacDonald (SL) Limited	100	AZ
Singapore		
Franklin + Andrews Pte Limited	100	BA
Mott MacDonald Singapore Pte Limited	100	BA
Slovakia		
Mott MacDonald Slovensko, s r.o.	100	BB
South Africa		
Merz & McLellan (Proprietary) Limited	100	BC
Mott MacDonald Africa (Pty) Limited ²	49	BC
Mott MacDonald Contracting (Pty) Limited ²	49	BC

Notes to the financial statements

at 31 December 2017

29. Subsidiary undertakings (continued)

Subsidiary undertaking by country of incorporation/registration	% held of ordinary share capital	Registered office key
South Africa (continued)		
Mott MacDonald Development South Africa (Pty) Limited ²	49	BC
Mott MacDonald Holdings (South Africa) (Pty) Limited ²	49	BC
Mott MacDonald South Africa (Proprietary) Limited ²	49	BC
PDNA Holdings (Pty) Limited ²	49	BC
Phambili Merz (Proprietary) Limited	100	BC
Taiwan		
Taiwan Mott MacDonald Limited	81	BD
Tanzania		
Cambridge Education Tanzania Limited	100	BE
Thailand		
Cambridge Education (Assessment) Company Limited	100	BF
Mott MacDonald (Thailand) Limited	100	BF
Thai MM Limited	100	BF
Turkey		
Mott MacDonald T Engineering Consultants Limited	100	BG
Uganda		
Mott MacDonald Uganda Limited	100	BH
United Arab Emirates		
Ewbank International Consultants (Private) Limited	100	BI
United States of America		
Cambridge Education, LLC	100	BJ
Coast & Harbor Engineering, Inc.	100	BJ
Mott MacDonald Consultants, Inc.	100	BJ
Mott MacDonald Federal, LLC	100	BJ
Mott MacDonald Michigan, LLC	100	BJ
Mott MacDonald Operating Services, LLC	100	BJ
J.B. Trimble, Inc.	100	BK
Keith B. Higgins & Associates, Inc.	100	BL
Mott MacDonald Alabama, LLC	100	BM
Mott MacDonald Architects, Inc.	100	BN
Mott MacDonald Florida, LLC	100	BO
Mott MacDonald Group, Inc.	100	BP
Mott MacDonald Holdings, Inc.	100	BP
Mott MacDonald I&E, LLC	100	BP
Mott MacDonald, LLC	100	BP
Mott MacDonald Massachusetts, LLC	100	BQ
Mott MacDonald NY, Inc.	100	BR
Mott MacDonald USA, LLC	100	BS
Mott MacDonald, Inc.	100	BT
Richard P. Arber Associates, Inc.	100	BU

¹investment not held through subsidiary undertakings.

²although the holding in ordinary shares is less than 50%, other indicators of control have been taken into account in determining that this is a subsidiary and in calculating the non-controlling interest.

Notes to the financial statements

at 31 December 2017

29. Subsidiary undertakings (continued)

Other fixed asset investments by country of incorporation/registration	% held of ordinary share capital	Registered office key
United Kingdom		
BMM JV Limited	50	BV
Environments for Learning Leeds PSP Limited	24	BW
M2 (Water) LLP	50	B
Oman		
Galfar Mott MacDonald LLC	35	BX
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
22 Station Road, Cambridge, CB1 2JD, United Kingdom		C
St. Vincent Plaza, 319 St. Vincent Street, Glasgow, G2 5LD, United Kingdom		D
Hays House, Millmead, Guildford, Surrey, GU2 4HJ, United Kingdom		E
Mezzanine Floor, 22 King William Street, Adelaide SA 5000, Australia		F
Mott MacDonald Australia Pty Ltd, Level 16, 201 Elizabeth Street, Sydney NSW 2000, Australia		G
Plot 50370, Fairgrounds, East Wing, Acumen Park, Gaborone, Botswana		H
Plot 776, Extension 2, Gaborone, Botswana		I
Avenia Treze de Maio 13, Salas 1.504, 1.505, 1.506, 1.507, 1.508, 1.509, 1.510 e 1.511 (Grupo 1.508) Centro, Rio de Janeiro, Brazil		J
13 Floor 2, Damian Gruev Street, Sofia 1606, Bulgaria		K
Suite 301, 30 Duncan Street, Toronto ON M5V 2C3, Canada		L
Suite 1005 Tower E Global Trade Centre, 36 North 3rd Ring Road East, Beijing, 100013, China		M
2302 Block 1, Xinwen Building, 2 Shennan Zhong Road, Futian District, Shenzhen, China		N
20/F AIA Kowloon Tower, Landmark East, 100 How Ming Street, Kwun Tong, Kowloon, Hong Kong		O
Avenida da Praia Grande 759, 3F, Macau SAR, Macau, China		P
Calle 93B No. 12-48, Oficina 308, Edificio Futura, Bogota D.C., Colombia		Q
Narodni 15, 110 00 Praha 1, Czech Republic		R
7eme Etage, Immeuble BCDC, Boulevard du 30 Juin, Commune de la Gombe, Kinshasa, Congo, Democratic Republic of the		S
71 Rabaa El-Adaweya Investment Project, El Akad Mall Ext., 5th Floor, Apartment 53, Nasr City, Cairo, Egypt		T
c/o Sweco Industry Oy, PL 75, Helsinki, 00381, Finland		U
33 Avenue de la Republique, 75011, Paris, France		V
4th Floor, The Albany, South Esplanade, St. Peter Port, Guernsey GY1 4NF		W
Vaci Str 45 F/7, Budapest, 1134, Hungary		X
44, Dr. R.G. Thadani Marg, Worli, Mumbai, 400 018, India		Y
Gedung Sequis Center, 3rd Floor, Jalan Jenderal Sudirman No 71, Jakarta, 12190, Indonesia		Z
South Block, Rockfield, Dundrum, Dublin 16, Republic of Ireland		AA
Via Emilio Salgari No. 99, Genova, Italy		AB
4F Nakaichi Building, 2-2-16 Yushima, Bunkyo-ku, Tokyo, 113-0034, Japan		AC
Office 1114, Syganak Street 29, Esil District, Astana, 010000, Kazakhstan		AD
Plot LR No. 7158/602, Kalamu House, Grevillea Grove, Westlands, PO Box 47323, Nairobi, 00100, Kenya		AE
Centenary Complex, Kidney Crescent, Kristwick, Off Kamuzu Highway, PO Box 776, Blantyre, Malawi		AF
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200, Kuala Lumpur, Malaysia		AG
c/o Navitas Corporate Services Ltd, Navitas House, Robinson Road, Floreal, Mauritius		AH
c/o Globefin Management Services Ltd, 1st Floor, Anglo Mauritius House, Intendance Street, Port Louis, Mauritius		AI
Suite 203, Crystal Business Center, Chinggis Avenue 11/1, Ulaanbaatar, 210628, Mongolia		AJ

Notes to the financial statements

at 31 December 2017

29. Subsidiary undertakings (continued)

	Key
Registered Office	
Rua Comandante Joao Belo, Polana Cimento, Maputo, Mozambique	AK
Amsterdamseweg 15, 6814 CM Arnhem, Netherlands	AL
Level 1, 23 Union Street, Auckland, 1010, New Zealand	AM
20 Kwame Nkrumah Crescent, Asokoro, Abuja, Nigeria	AN
Sterling Towers, 20 Marina, Lagos, Nigeria	AO
20 Johnson Street, Ilupeju, Lagos, PO Box 3188, Nigeria	AP
c/o Inforeign AS Misjonsmarka 1, 4024 Stavanger, Norway	AQ
PO Box 587, Postal Code 112, Ruwi, Sultanate of Oman	AR
The Regus TEC Inc, 27th Floor Tower 2, The Enterprise Centre, 6766 Ayala Ave. Corner, Paseo de Roxas, 1226, Philippines	AS
Ul. Walicow 11, Budynek Aurum, 00-851 Warsaw, Poland	AT
Ul. Prosta 68, Budynek Proximo, 00-838, Warsaw, Poland	AU
246 Traian Street, Floor 3, Ap. 5 District 2, Bucharest, Romania	AV
15 Iancu Capitanu Street, District 2, Bucharest, Romania	AW
4th Floor, 71 Sadovnicheskaya Embankment, 115035, Moscow, Russia	AX
Kneginje Zorke 2, Floor 1, Belgrade, 11000, Serbia	AY
37 Siaka Stevens Street, Freetown, Sierra Leone	AZ
1 Grange Road, #07-01 Orchard Building, 239693, Singapore	BA
Sulekova 2, Bratislava 811 06, Slovakia	BB
3rd Floor, Building 1, 11 Alice Lane, Sandhurst, Sandton 2196, South Africa	BC
9F, No. 467, Sec 6, Zhongxiao E. Rd, Nangang District, Taipei, 11557, Taiwan (Republic of China)	BD
11th Floor, Golden Jubilee Towers, Ohio Street, Box 80512, Dar es Salaam, United Republic of Tanzania	BE
19th Floor, Chamnan Phenjati Building, 65/159 and 65/162 Rama 9 Road, Huay-Kwang, Bangkok, 10310, Thailand	BF
Sun Plaza, No. 5 Kat, Maslak Mah. Bilim Sok., 15 Sariyer, Istanbul, 34485, Turkey	BG
c/o Africa Registrars, Plot 2 Bombo Road, City Apartments, 3rd Floor Suite 13, PO Box 31776, Kampala, Uganda	BH
PO Box 11302, Dubai, United Arab Emirates	BI
111 Wood Avenue South, Iselin NJ 08830-4112, United States of America	BJ
2000 Riveredge Parkway, Suite 700, Atlanta GA 30328, United States of America	BK
1300 First Street, Suite B, Gilroy CA 95020, United States of America	BL
153 West Interstate, Mobile AL 36608, United States of America	BM
Suite 177, 2320 Highland Avenue South, Birmingham AL 35205, United States of America	BN
220 West Garden Street, Suite 700, Pensacola FL 32502, United States of America	BO
c/o The Corporation Service Company, 2711 Canterville Road, Suite 400, Wilmington, 19808, Delaware, United States of America	BP
150 Lower Westfield Road, Holyoke MA 01040, United States of America	BQ
1400 Broadway, 30th Floor, New York NY 10018, United States of America	BR
One University Avenue, Suite 100, North Lobby, Westwood MA 02090, United States of America	BS
251 Little Falls Drive, City of Wilmington, County of New Castle DE 19808, United States of America	BT
143 Union Boulevard, Suite 1000, Lakewood CO 80228, United States of America	BU
St James House, Knoll Road, Camberley, Surrey, GU15 3XW, United Kingdom	BV
Interserve House, Ruscombe Park, Twyford, Reading, Berkshire, RG10 9JU, United Kingdom	BW
PO Box 587, PC 112, Ruwi, Muscat, Sultanate of Oman	BX

Group five year summary

Years ended 31 December	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Gross revenue	1,548,878	1,407,198	1,401,408	1,231,005	1,214,513
Profit on ordinary activities before taxation	37,397	60,571	63,561	59,568	60,317
Tax on profit on ordinary activities	(16,165)	(9,247)	(22,312)	(23,080)	(20,799)
Non-controlling interests	(130)	(605)	(14,674)	(12,049)	(14,590)
Dividends	(5,816)	(6,469)	(6,045)	(11,247)	(8,951)
Retained profit	15,286	44,250	20,530	13,192	15,977
Employment of Group capital					
Fixed assets	93,363	84,114	89,334	98,594	50,293
Net current assets (less provisions)	151,265	180,096	201,165	192,327	162,261
Excluding pension liability	244,628	264,210	290,499	290,921	212,554
Pension liability (excluding deferred tax)	(78,737)	(106,867)	(91,285)	(82,296)	(50,995)
Including pension liability	165,891	157,343	199,214	208,625	161,559
Group capital employed					
Creditors falling due after more than one year	41,310	54,085	45,812	61,333	2,949
Equity attributable to owners of the parent company excluding pension liability	203,042	209,510	197,480	184,867	166,042
Non-controlling interests	276	615	47,207	44,721	43,563
Excluding pension liability	244,628	264,210	290,499	290,921	212,554
Pension liability (excluding deferred tax)	(78,737)	(106,867)	(91,285)	(82,296)	(50,995)
Including pension liability	165,891	157,343	199,214	208,625	161,559
Net funds					
Cash at bank and in hand	106,092	106,023	122,065	103,689	94,455
Bank overdrafts	(838)	(111)	(616)	(396)	(1,211)
Current instalments due on loans	(91)	(514)	(440)	(799)	(10,523)
Loans falling due after more than one year	(41,198)	(53,986)	(45,376)	(60,983)	(208)
Obligations under finance leases	(633)	(870)	(1,613)	(935)	(184)
Shares classed as financial liabilities	(33)	(39)	(37)	(33)	(34)
	63,299	50,503	73,983	40,543	82,295

The year 2013 is stated under previously extant UK GAAP. However pension liability has been shown gross of deferred tax for comparability purposes with years 2014 and later which have been reported under FRS 102.

Opening opportunities with connected thinking.

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