# STRENGTH IN DIVERSITY

Annual Report and Financial Statements 2009

Galliford Try plc

"The actions we took to deal with the effects of the financial crisis on our markets during the year, and the financial strength of the Group, mitigated the impact on our business and now enable us to move forward again."

**Greg Fitzgerald** Chief Executive



**Cover image:**
Galliford Try marked over 35 years of working for the All England Lawn Tennis Club at Wimbledon by completing the redevelopment of Centre Court. The retractable roof was successfully used for the first time at the 2009 championships.

# DEMONSTRATING RESILIENCE

> Total housebuilding completions of 1,769 units compared to 2,524 last year and 1,526 the year before.

> Housing market recovery in second half of financial year sustained, with sales made in first two months of new financial year exceeding our forecast.

> Landbank currently 7,850 plots (2008: 8,900), of which 1,100 plots are on terms agreed since July 2008.

> Record profits and excellent cash generation from Construction.

> Public and regulated sectors account for 84 per cent of contracting order book, maintained at £1.7 billion.

> Rights issue of £119 million (net) announced to recommence expansion in housebuilding.

| | 2009 £m | 2008 £m |
|---|---|---|
| Group revenue | 1,461 | 1,832 |
| Profit from operations* | 31.2 | 85.4 |
| (Loss)/profit before tax | | |
| – pre exceptional ** | 24.5 | 71.8 |
| – post exceptional | (26.9) | 60.3 |
| Net cash/(debt) at year end | 34.1 | (1.7) |
| | pence | pence |
| Earnings/(loss) per share | | |
| – pre exceptional ** | 4.9 | 13.6 |
| – post exceptional | (4.8) | 11.4 |
| Dividend per share | 1.5 | 3.0 |

*Profit from operations is stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax.

**Stated before exceptional items of £51.4 million (2008: £11.5 million) comprising write downs of housing related assets of £50.4 million and redundancy costs of £1 million.

### GROUP REVENUE

**£1,461m**

### PROFIT FROM OPERATIONS

**£31.2m**

### PROFIT/(LOSS) BEFORE TAX

Pre exceptional

**£24.5m**

Post exceptional

**(£26.9m)**

### NET CASH

Year end

**£34.1m**

### EARNINGS/(LOSS) PER SHARE

Pre exceptional

**4.9p**

Post exceptional

**(4.8p)**

### DIVIDEND PER SHARE

**1.5p**

# GALLIFORD TRY HOUSEBUILDING AND CONSTRUCTION

Galliford Try is a housebuilder and affordable housing provider primarily focused across the South of England, Midlands and Eastern counties, and provides construction services throughout the UK.

We employ 3,850 people, and are an industry leader in collaborative working through partnering and long term relationships throughout our businesses.

## GROUP

Galliford Try is in the top ten of both the UK's housebuilders and construction companies.

Our housebuilding and our affordable housing and regeneration divisions develop homes for the UK housing market; our building and infrastructure divisions, supported by PPP Investments, deliver construction services to clients in both public and private sectors.

**Strategy**
To position the Group to resume growth in housebuilding as the housing market improves and to maintain a leading market position in construction.

**Performance**

Group revenue* **£1.46bn**

Profit from operations** **£31.2m**

Net cash **£34.1m**

*Group revenue excludes joint ventures. 'Revenue' where stated throughout the business review includes share of joint ventures.
**Stated after Group costs of £6.0 million.

## HOUSEBUILDING

Galliford Try develops homes for sale on individually designed, bespoke developments.

We operate through four regional brands: Midas Homes and Gerald Wood Homes in the South West, Linden Homes across the South and South East of England and Stamford Homes in the Midlands and Eastern counties.

**Strategy**
To maintain an appropriate level of activity and our geographic spread during the market downturn, positioning the business to resume growth as the market improves.

**Performance**

Revenue **£235m**

Profit from operations **£3.5m**

Completions **1,216 units**

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## AFFORDABLE HOUSING AND REGENERATION

Galliford Try is a leading player in the regeneration of brownfield sites, working in partnership with Government agencies, affordable housing providers and others to conceive and construct distinctive community and mixed use schemes.

**Strategy**
To increase the proportion of affordable housing developed by the Group during the market downturn through effective participation in Government assistance programmes and by restructuring long term regeneration projects to bring forward development.

**Performance**

Revenue **£184m**

Profit from operations **£6.3m**

Completions **553 units**

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Our strategy over the longer term is to increase shareholder value by profit growth in both our housebuilding and construction businesses. We aim to maximise our cash position, maintain our strong presence in the markets that will mitigate current recessionary effects, and resume growth as economic conditions improve.

## BUILDING

Galliford Try offers a comprehensive range of building services across the UK with specific sector expertise in education, health, commercial, leisure, interiors and facilities management.

We work for both public and private sector clients carrying out both single projects and building programmes under long term agreements.

**Strategy**
To increase our share of the market by delivering whole life building solutions and developing further our national approach to our key market sectors.

**Performance**

| | |
|---|---|
| Revenue | £546m |
| Profit from operations | £13.0m |
| Order book | £731m |

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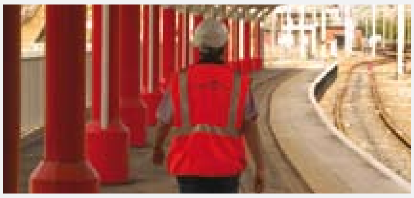

## INFRASTRUCTURE

Galliford Try is a leading infrastructure contractor, focusing on the water, highways, rail, flood alleviation, remediation and renewable energy sectors.

From design through project implementation to aftercare, most of our work is in frameworks based on long established collaborative relationships with clients in the public and regulated sectors.

**Strategy**
To maintain existing frameworks in our chosen sectors and by developing our major project capability alongside a regional presence.

**Performance**

| | |
|---|---|
| Revenue | £517m |
| Profit from operations | £13.9m |
| Order book | £844m |

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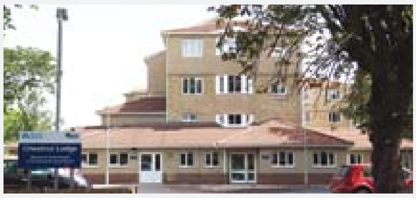

## PPP INVESTMENTS

Galliford Try invests in public private partnerships, that deliver design, finance, build and operate solutions for long term public sector projects. We have a long track record in education, health and MoD accommodation.

**Strategy**
To secure a stream of projects that will generate profits on the equity investment made and provide negotiated opportunities for the Group's construction and facilities management businesses.

**Performance**

| | |
|---|---|
| Revenue | £27.4m |
| Profit from operations | £0.5m |
| Directors valuation | £19.2m |

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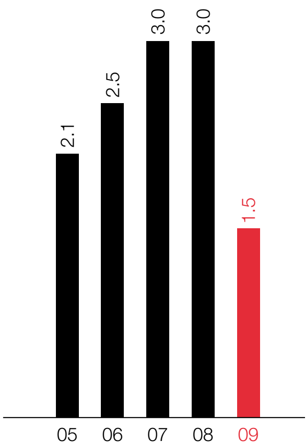
# FOCUSED ON SHAREHOLDER VALUE

The diversity of the Group's operations and its financial strengths have stood it in good stead. Our overriding focus is on shareholder value to deliver sustainable growth over the long term.

**David Calverley,** Chairman

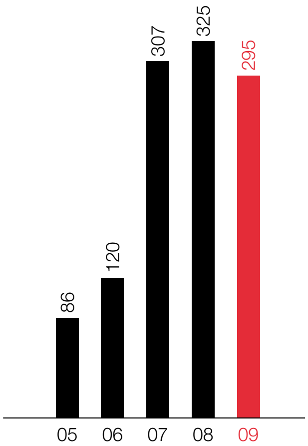
**Dividend per share**

Pence




**Shareholders' funds**

£m




The actions we took to deal with the effects of the financial crisis on our markets during the year, and the financial strength of the Group, mitigated the impact on our business and now enable us to move forward again.

Group revenue was £1,461 million (2008: £1,832 million). The Group achieved a profit from operations (stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax) of £31.2 million (2008: £85.4 million). The pre exceptional profit before tax was £24.5 million (2008: £71.8 million).

Following a review of the value of its housing assets due to the market downturn, the Group has recorded net exceptional costs of £51.4 million (2008: £11.5 million) comprising write downs of housing related assets of £50.4 million (2008: £9.6 million) and redundancy costs of £1.0 million. The post exceptional loss before tax was therefore £26.9 million (2008 profit: £60.3 million).

Basic pre exceptional earnings per share are 4.9 pence (2008: 13.6 pence) with a post exceptional loss per share of 4.8 pence (2008 earnings per share: 11.4 pence). Shareholders' funds at 30 June 2009 stood at £294.6 million compared to £325.3 million at the end of the previous year.

**Dividend**

The board has carefully considered the Group's performance and trading prospects in the light of the current economic environment and has decided that, in line with the interim dividend declared on 19 February 2009, the level of total dividend paid for the year should equal half of the amount of the total dividend paid for the previous financial year. Consequently, the directors are recommending a final

**£295m**
**Shareholders' funds at 30 June 2009**

dividend of 1.05 pence per share (2008: 2.1 pence per share) which, with the interim dividend of 0.45 pence paid in April, will result in a total dividend of 1.5 pence per share (2008: 3.0 pence). The final dividend will be paid on 13 November 2009 to shareholders on the register on 18 September 2009.

The directors will review the level of future dividends in light of the performance of the business and the prevailing economic outlook at the time, with the intent of returning to paying a progressive dividend as soon as appropriate.

**People**
Many of the Group's employees have gone through the most challenging year of their careers and their resilience and positive approach to dealing with the difficulties has been remarkable. The board recognises the commitment shown by all our people, who continually demonstrate that our teams cannot be bettered. Thank you to all of them.

**The Board**
Since my last report, Jonathan Dawson announced his retirement and stepped down from the board as a non-executive director on 31 December 2008. As a director and chairman of our audit committee since 2003, the board benefited significantly from his experience and counsel. We wish him well for the future.

We were delighted to welcome Andrew Jenner who joined the board as a non-executive director and chairman of the audit committee with effect from 1 January 2009. He is finance director of Serco Group plc, and his business experience and significant financial skills are proving of real value to the board.

**Outlook**
Having positioned ourselves to be able to respond when activity in the housing market resumed, we are encouraged by the continuation of the improvement over the summer and we now plan to recommence our growth strategy in housebuilding. Our leading presence in the affordable housing and regeneration market has enabled us to participate significantly in the initiatives launched by the Government to restart development in this sector, and will give us a competitive edge as markets recover.

We have today announced a rights issue to raise approximately £119 million, net of expenses, to provide us with the resources and capital structure to recommence the expansion of our housebuilding business.

Our construction business has shown that it can deliver profits and cash generation that is in the upper quartile of the industry. As the recession continues to impact opportunities and increase competitiveness across its markets, we expect that our strong presence in the public and regulated sectors will enable us to maintain our position as one of the UK's leading contractors.

Throughout these challenging times, the diversity of the Group's operations and its financial strengths have stood it in good stead. As we position the Group to meet changing markets, and ready ourselves for the opportunities that will arise as the economy recovers, our overriding focus will be on shareholder value to deliver sustainable growth in the long term.

**David Calverley**
Chairman

# BENEFITING FROM A PROACTIVE APPROACH

Our focus during the year has been on taking early action to deal with the effects of the economic downturn and financial crisis on our markets and positioning ourselves to grow again when economic conditions improve.

**Greg Fitzgerald,** Chief Executive

Recognising the likely effects on our business of the rapid changes in the economic situation during the year and taking early action to deal with them has been the focus of management throughout the period.

With the onset of the financial crisis in September 2008 leading to the worst housing market in generations, our housebuilding businesses reacted swiftly to the conditions faced, concentrated on producing quality homes at levels and at prices that the market would support, and reduced costs. These actions were taken while maintaining our geographical coverage and operational infrastructure to take advantage of an eventual upturn. Total completions were 1,769 units, compared to 2,524 last year and 1,526 the year before. Our current landbank of 7,850 units includes 1,100 plots acquired since July 2008. We entered the new financial year with sales carried forward of £161 million (2008: £150 million) and with the market maintaining the recovery of the last six months, sales in the first two months of our new financial year have exceeded our forecast.

Our construction business has again delivered record profits and excellent cash generation. Our leading position in the markets for the public and regulated sectors has placed us in a relatively encouraging position as the market for private commercial work reduces, and increased levels of competitiveness for new work have made markets in all sectors more challenging. With the process for renewing the five year frameworks in our water business currently underway, two of which we have already secured, we have maintained our order book at £1.7 billion. We are performing in line with our expectations and are in a resilient position for trading through more difficult markets.

Group revenue was £1,461 million (2008: £1,832 million). The Group achieved a profit from operations of £31.2 million (2008: £85.4 million). The pre exceptional profit before tax was £24.5 million (2008: £71.8 million). Following a review of the value of its housing assets due to the market downturn the Group has recorded net exceptional costs of £51.4 million (2008: £11.5 million) comprising write downs of housing related assets of £50.4 million (2008: £9.6 million) and redundancy costs of £1.0 million (2008: £1.9 million). The post exceptional loss before tax was therefore £26.9 million (2008 profit: £60.3 million).

Cash management has always been a top priority for our business, and never has this been more important than in the past year. Our construction businesses continue to generate cash balances which exceeded our forecasts throughout the year. This, together with

**UK Market Analysis**

The Group's revenues place it in the top 10 of both housebuilding and construction companies operating in the UK market. The Group is therefore dependent on the size of those markets and on their prospects for its future workload. Published statistics help put the Group's performance and prospects in context.

| Market sector | UK market size – 2008 | Total industry orders | Comment |
|---|---|---|---|
| **Private Housing** | The private housing market carried out £16.3 billion of work in 2008, 19% down on the previous year. | Orders for the year to June 2009 fell by 50% compared to the previous 12 months. | Land Registry figures show housing sales now rising from around 24,700 transactions in January 2009 to around 42,700 in May. |
| **Public Housing** | New public housing output in 2008 fell by 6% to £4.0 billion. | For the year to June 2009 public housing and housing association orders fell by 16% compared with the previous 12 months. | The Government has launched a number of financial assistance schemes to boost public housing output through the Homes and Communities Agency. |
| **Commercial and Industrial Construction** | Commercial building output in the UK rose by 1% to £23.4 billion and industrial building fell 18% to £4.1 billion in the year to December 2008. | Overall orders for new work fell by 41% for commercial building in the year to June 2009 and by 37% for industrial building. | The confidence of commercial and industrial clients to invest has fallen as their markets have declined, and the availability of development finance has reduced. |
| **Public Construction (non housing)** | Public construction output grew by 18% by £12.3 billion for the 2008 calendar year. | Orders in the 12 months for June 2009 rose by 6% compared to the previous 12 month period. | Growth in the sector has been driven by education, particularly the Building Schools for the Future programme, as well as the Olympic build programme. |
| **Infrastructure** | Total output in the UK infrastructure market grew 11% to £7.7 billion in the year to December 2008. | Overall orders for UK infrastructure projects rose 14% in the year to June 2009 compared with the previous 12 months. | Growth has been driven largely by transport projects and construction for the energy providers. |

Sources: Office for National Statistics, Land Registry.

the effect of the controls applied throughout our housebuilding operations, resulted in a net cash position of £34.1 million (2008 net debt: £1.7 million) at the year end. We have continued to improve on our forecasts for the first two months of the new financial year, and as overall debt levels do fluctuate throughout the year there is no let up on our stringent approach to cash. The Group continues to operate within both the headroom and the covenants of our bank facilities, which stood at £426 million at the year end, and are with HSBC, Barclays, Royal Bank of Scotland and Bank of Scotland, and which do not mature until 2012.

**Strategy**

Galliford Try's long term strategy is to grow profits by expanding both its housebuilding and construction activities. The severe downturn in the housing market following the financial crisis in the first half of our financial year, and the ongoing effect of the recession on the construction markets, impacted short term objectives and realigns our focus for the medium term.

Our immediate strategy to mitigate the housebuilding downturn was to maximise cash receipts, minimise expenditure and reduce costs. We achieved this by aggressive sales policies, reducing spend on work in progress on our developments to a minimum and by implementing a £25 million programme of cost cutting measures across the entire Group. We reduced employee levels in our housing businesses, but minimised the numbers involved by implementing a four day week from January to June 2009. Our strategy was executed with the intent that it faced up to the economic realities, while maintaining the operational structure and geographical spread of our housebuilding activities so that, at the appropriate time, we could expand again. During this time we secured substantial grant awards which helped to maintain output levels in our affordable housing business. We also restructured a number of our regeneration schemes with the Homes and Communities Agency, demonstrating the strength of our relationships with them which, as the largest landowner in the UK, should stand us in good stead as they seek to bring new projects forward for development. With activity levels in the housing market recovering from early 2009 and maintained into the first two months of our new financial year, we are able to refocus our strategy and start to expand the business again.

Our strategy for housing has always taken into account our position in the market and the factors that set us apart from the competition. Geographically, our activities are spread from the South West of England across the South East to the Eastern counties. When markets improve, we anticipate these areas, which have historically demonstrated greater economic resilience, will provide opportunities. Our expertise and track record in brownfield development and our ability to deal with conversions of existing buildings will continue to set us apart from much of our competition, together with the differentiation of our developments through individual designs, minimising the use of standard house types and showing sensitivity to local architecture. We will reduce further our limited exposure to apartment developments in secondary urban locations, as well as keeping at our current minimal level our involvement in major consortium sites where we are in direct competition with the major housebuilders.

Our regeneration and affordable housing business with its strong relationships with our housing association partners and the Homes and Communities Agency has proved valuable over the past year. Our lead developer status on the national affordable housing programme has enabled us to access substantial direct grant funding and the work we have carried out with the HCA to renegotiate and rephase projects being carried out in partnership with them to meet current market restraints puts us in a good position to work on future projects when new opportunities arise. Many of these complex regeneration schemes require both the development skills we have in our housebuilding division, our building expertise and our infrastructure skills to be able to offer a complete service to remediate contaminated land, put in site infrastructure and contract for the commercial elements as well as develop the homes that create the new communities.

In construction, our strategy has been based on securing a substantial proportion of our workload through the programmes of the public and regulated sectors where winning contracts depends on our performance across a number of key performance indicators, as well as on price. This has stood us in good stead as the economy deteriorated over the past year as, despite funding issues with programmes such as education projects financed through the Learning and Skills Council, commitment to public investment has continued. Following the financial crisis the availability of funding for commercial building and the willingness of private sector clients to proceed with investments has reduced, increasing competitiveness across all construction markets. Our contracting order book has remained resilient at £1.7 billion, we have already renewed two of our water frameworks for the next five years, and since the year end have secured contracts in the health, education and commercial sectors totalling £140 million. Our strategy is to maintain our market position, built on our strong presence in the public and regulated sectors.

In our building division we have an industry leading presence for major building projects in the South, Midlands and Scotland, where we aim to maintain our market share, and continue to develop our business in the North of England. In our infrastructure business factors such as statutory requirements to improve operational and environmental standards also drive our clients' capital investment and renewal programmes, specifically in the water industry. Our leading position in framework and long term relationship contracting will continue to underpin our strategy. Our aim is to renew our frameworks with our key clients, adding to them where we can, and supplementing this base workload with one off projects that our key infrastructure clients tender outside framework programmes. We are also looking at potential opportunities to grow our small international business by providing infrastructure services in Qatar.

We are developing our renewable energy business to meet the increasing demand of projects for higher standards of environmental sustainability, including acting as both developer and energy supplier for wind turbine projects as well as providing construction services.

Our financial model is based on our construction operations generating both profit and cash which we then use to support the investment in our housebuilding business which, to generate profit, has a cash requirement. We therefore minimise our need for external borrowings.

The Group aims to deliver its strategy organically. However, the Group has significant experience in supplementing organic growth with acquisitions, and in the sectors where opportunities may arise to enhance or expand the business by acquisition, we will examine opportunities when they arise.

"Galliford Try can deliver complex regeneration schemes by supporting its development skills with its construction expertise."

## Key Performance Indicators

Key performance indicators, together with a number of other measures, are used by the board to measure the overall progress of the Group against its business objectives and its strategy. Specific housing and construction KPI's are outlined in the respective sections of the business review, with the Group's primary KPI's as follows:

| KPI | Objective | Measure | 2009 Performance | Comment |
|---|---|---|---|---|
| **Health and safety** | To ensure our operations are carried out safely and without causing injury. | Total number of reportable injuries in the year divided by the average number of direct employees and sub contractors employed expressed as incidents per 1,000 people. | Last year's improvement in performance maintained, with result little changed at 5.7 compared to 5.6 last year, down from 8.6 the year before. | Improving individual business's performance, and behaviours through our new training programme, are delivering a more consistent performance across the Group. |
| **Profit before tax** | To achieve consistent increases in profit before tax each year. | Profit on ordinary activities, excluding exceptional items, stated before tax. | Objective not achieved as profit reduced to £24.5 million from £71.8 million; after the exceptional loss in housebuilding, an overall loss of £26.9 million. | Record profits were made from construction activities. However housebuilding profits fell considerably due to the collapse in the market. |
| **Earnings per share** | To provide year on year growth in earnings per share. | Earnings per share based upon profit attributable to ordinary shareholders before exceptional items, divided by the average number of shares in issue during the year. | Objective not achieved as reduced from 13.6 pence to 4.9 pence, and a loss per share of 4.8 pence after the exceptional loss is taken into account. | The pre-exceptional profit fell by 66 per cent. The weighted average number of shares in issue in the year was 374.0 million compared to 372.7 million in the previous year. |
| **Dividend per share** | To pay a progressive dividend each year. | The sum of the interim dividend and the final proposed dividend per share for the financial year. | Reduced by half to 1.5 pence per share, therefore not achieved this year. | The directors have decided that their confidence in the longer term prospects for the business justifies a dividend at the recommended level. |
| **Cash and capital management** | For our construction activities to generate cash and for our housebuilding businesses to maximise their return on capital employed. | Our key measure is our overall net cash/debt. We also measure capital turn (the number of times in the year we turn our capital, calculated as housing revenue divided by average capital employed). | A good result with a net positive cash balance of £34.1 million at 30 June 2009 compared to net debt of £1.7 million at 30 June 2008. We turned our capital 0.9 times in the year compared to 1.2 times in 2008. | We generated as much cash as possible from housing sales, cut spend on land and work in progress and reduced costs. We have achieved excellent cash balances in our construction businesses. |
| **Staff churn** | To attract and retain the highest calibre of employees by being an employer of choice. | The number of employees within the Group who voluntarily leave during the year divided by the average number of employees expressed as a percentage. | A successful result with a 5 per cent improvement, with churn falling to 12.3 per cent in the year. | We would expect churn to be between 15 per cent – 20 per cent under normal circumstances, but as the economy worsened our ability to attract and retain employees improved. |

# HOUSEBUILDING WELL POSITIONED FOR RECOVERY

Galliford Try's leading reputation in housebuilding is based on creating individually designed developments and homes for sale, with an industry acknowledged expertise in affordable housing and regeneration projects.

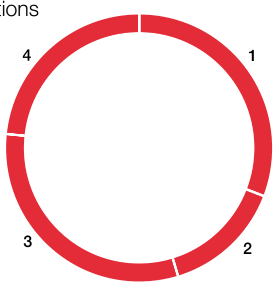
The Group's housebuilding activities are organised into two divisions: housebuilding and affordable housing and regeneration. The housebuilding division develops houses for private sale, with the affordable housing and regeneration division developing and contracting with affordable housing providers and regeneration agencies to create new and sustainable communities.

**Key Performance Indicators**

| KPI | Objective | Measure | Performance |
|---|---|---|---|
| **Completions** | To grow completions in excess of underlying market growth. | Total number of homes that have been legally completed, including the equivalent number of completions from joint ventures represented by our share of ownership. | 1,769 completions compared to 2,524 last year. 1,216 were in housebuilding and 553 in affordable housing and regeneration. |
| **Profit from Operations** | To increase profit from operations year on year. | Profit from operations is stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax. | Reduced to £3.5 million in 2009 compared to £53.2 million in 2008 in housebuilding, and to £6.3 million from £13.1 million in affordable housing and regeneration. |
| **Operating Margin** | To deliver upper quartile operating margin for our sector. | Profit from operations divided by revenue, expressed as a percentage. | Reduced to 1.5 per cent from 10.9 per cent the previous year in housebuilding and to 3.4 per cent from 5.7 per cent in affordable housing and regeneration. |
| **Net Debt and Capital Return** | To control the capital invested in the business to meet Group net debt objectives. | The Group sets specific debt targets for each business unit within the divisions on a month end basis. | Overall Group performance reported on page 9. |
| **Landbank** | To improve the size, quality and balance of our landbank over time. | The total number of owned and controlled plots in the landbank. | 7,850 plots at the end of 2009 compared to 8,900 a year ago. |
| **Customer Satisfaction** | To provide customer service levels that place us well into the upper quartile of industry customer satisfaction surveys. | The percentage of our house buyers who would recommend the Company to their best friend, calculated using responses to research carried out by an independent external research company that contacts every customer after they have purchased one of our homes. | Maintained at over 90 per cent. |

**Regional split**

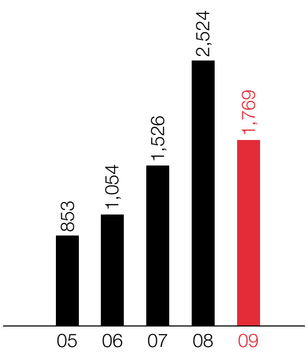
1,769 Completions




| | | | |
|---|---|---|---|
| 1 **West and South West** | 566 | 3 **South East** | 515 |
| 2 **South** | 266 | 4 **Eastern Counties** | 422 |

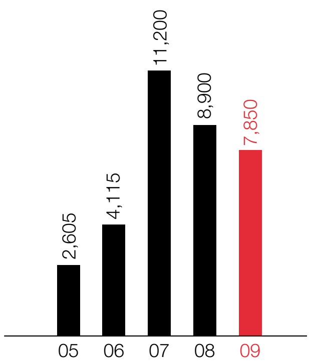
**Completions**

Unit numbers




**Landbank**

Plots



# AWARD WINNING HOMES WITH DISTINCTIVE DESIGNS

Setting our homes apart by distinctive designs and avoiding standard house types, our regional housebuilding companies operate as Linden Homes in the South East, Stamford Homes in the Eastern Counties and as Midas Homes and Gerald Wood Homes in the South West.

**2009 HIGHLIGHTS**

> Acquired Wright Homes' assets with 147 plots on five sites around Hull and York.
> Maintained upper quartile customer satisfaction scores with over 90 per cent of purchasers recommending us to their best friend.
> Won silver 'Best Large Housebuilder' and the RoSPA gold award in the 2008 'What House' awards.
> Overall winner and project winner in the housing design awards 2009.
> 1,769 completions ranks Galliford Try as sixth largest housebuilder in the UK.

Top: Water Colour, quarry land transformed in Surrey
Middle: Rivermead Way, local architecture in Devon
Bottom: Renaissance, homes on brownfield land in Grimsby

## HOUSEBUILDING

In the worst housing market for a generation our housebuilding business aligned itself to the market conditions it faced and, by concentrating on producing quality homes at production levels and at prices that the market would support, we have maintained our geographical coverage and business structure to take advantage of the eventual upturn.

**Market**

From a gradual deterioration early in the financial year, the housing market fell to unprecedented lows following the financial crisis in September 2008. Sales dropped dramatically as purchaser confidence evaporated with the economic crisis and the availability of mortgages rapidly reduced. During the early part of 2009, the market started to stabilise and, although mortgage availability remains well below the levels of previous years, there has been a gradual improvement from the low point in the number of mortgage products available. There remain tight constraints placed upon borrowers, and interest costs for new borrowers remain high.

There is evidence of pent up demand in the market as potential purchasers have held back during the period and, in the long term, there is no evidence that the overall demand for homes in the UK will reduce. The significant reduction in the number of new homes currently being built means that the Government's new homes targets to address the national housing need are unachievable. This gives us confidence that demand for new build homes will intensify. The market in the areas that the Group operates in, primarily spread across the whole of the South of England and the Eastern counties, have been less affected than parts of the North and West. The Group has also maintained a balanced development portfolio, avoiding the large scale apartment schemes in secondary locations that had resulted from planning constraints in prior years.

**Strategy**

Strategy during the downturn was to concentrate on maximising the cash position of the business by adjusting incentives and prices to sell stock, stopping all but minimal land expenditure and ceasing production on sites where there was little opportunity to make sales. Our strategy was also to reduce our costs to the minimum required for the level of business being undertaken, whilst maintaining our geographical coverage and core competences to be able to resume growth when economic conditions improved.

As the market stabilised in the spring of 2009 and mortgage availability started to return, our strategy evolved to recommence build programmes on sites where demand was evident and to resume land purchases where attractive terms could be negotiated based on current market levels. Our focus is therefore changing from entrenchment and cash conservation to controlled reinvestment in land and production to grow profits as economic conditions turn and the market starts to improve.

**Performance**

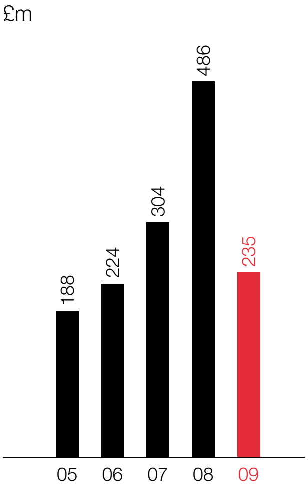
| | 2009 | 2008 |
|---|---|---|
| Revenue | £235 million | £486 million |
| Completions | 1,216 | 2,524 |
| Profit from operations | £3.5 million | £53.2 million |
| Operating margin | 1.5% | 10.9% |
| Landbank | 4,700 plots | 5,400 plots |

Profit from operations was £3.5 million on revenue, including joint ventures, of £235 million, representing a margin of 1.5 per cent (2008: £53.2 million on £486 million, representing 10.9 per cent). Following a review of its housing assets due to the market downturn the Group has recorded net exceptional costs of £51.4 million (2008: £11.5 million) comprising write downs of housing related assets of £50.4 million and redundancy costs of £1.0 million. Completions for the year were 1,216 at an average sales price of £189,000 (2008: 1,830 at £220,000).

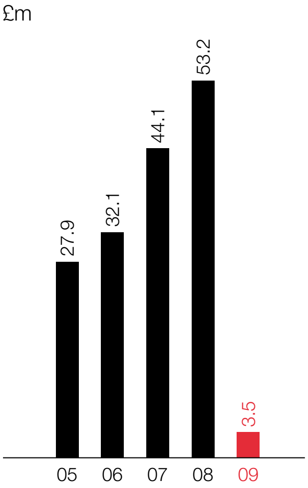
In the first half of the financial year, we took early action to reduce levels of stock and work in progress by setting prices and incentives to maintain sales and generate cash. We aligned our operational structure to the market, including implementing a four day working week from January to June 2009. This minimised the number of redundancies required with the objective of reducing cost whilst enabling us to preserve our geographical coverage, skill sets and operational infrastructure.

During the year we continued with our policy of reducing further our minimal exposure to large apartment developments and to consortium sites, where we are in competition with other housebuilders offering comparable homes, and currently have 60 active selling sites across the country compared to 75 the previous year. Visitor levels to our sites have recovered and are now at similar levels to a year ago, which is encouraging, and our cancellation rates stabilised at around 17 per cent. The number of stock units held reduced from 250 in July 2008 to 91 and we have carefully controlled the capital we have locked up on properties taken in part exchange, currently owning 14 compared to 82 in July 2008.

**Revenue**




**Profit from operations**




A number of our larger developments are carried out in joint venture, which both reduces the investment required and shares the project risk. We have significant schemes in Epsom, Chichester and in joint venture with Bank of Scotland in Colchester, St Albans, East London and Hammersmith. These are primarily long term projects with sales spread over several years.

Our landbank of owned and controlled plots currently stands at 4,700 plots, compared to 5,400 a year ago and our strategic land holdings stand at 1,300 acres compared to 1,430 a year ago from which we would ultimately expect to generate over 8,200 units. The land market has shown increasing signs of activity since the start of 2009 with our landbank now including 147 plots on five sites acquired with the acquisition in May of the assets of Wright Homes from its administrators. We have a number of attractive opportunities in the pipeline, giving us confidence that we can resume a growth strategy as economic conditions improve.

We have concentrated on maintaining standards throughout our business during the difficult times. Our focus on a quality product, designed without depending on standard house types and on maintaining customer satisfaction levels, continued throughout. The independent research carried out by the NHBC and the Housebuilders Federation into customer satisfaction, continues to show we achieve industry leading scores and that over 90 per cent of our purchasers continue to state they would recommend us to their best friend. We continue to win industry awards and in the year we secured 11 of the top awards including the silver Housebuilder of the Year award from ‘What House’, overall winner of the 'Housing Design' awards and major category awards in the ‘Building’ awards and the ‘Evening Standard’ awards.

**Risk management**

The division has significant risk management processes in place, particularly covering the acquisition of sites which require detailed appraisals to be carried out before any commitments are made. These include independent surveys of environmental issues as appropriate. Ensuring we build the right product for the market on the right sites is crucial to our success. Our analysis of the demographics, demand in local areas, and our sales and marketing strategies, are designed to reduce sales risk. Planning risk remains a significant factor for the industry, and we aim to reduce this by controlling the proportion of land we commit to prior to obtaining a suitable planning consent. We monitor economic and mortgage data to assist in planning the scale and geography of our business.

**Looking forward**

We anticipate that the market will be more stable compared to recent years, although conditions will remain challenging for the immediate future. Overall housing supply continues to be significantly below the underlying demand for homes and we will continue to anticipate the market in terms of product availability and land purchase. In the mortgage market, interest costs and constraints over loan to valuation ratios will affect purchasers for the foreseeable future, although there are clear signs that the number of mortgage products is now improving and there is an increased willingness by lenders to serve the market.

# CREATING SUSTAINABLE COMMUNITIES

Galliford Try is a leading player in the affordable housing and regeneration sector. Working closely with public and private partners, we conceive and deliver distinctive residential, community and mixed-use developments. Our award-winning schemes help transform communities and deliver lasting and positive change through individual design, bespoke developments and a focus on long term stewardship.

**2009 HIGHLIGHTS**

> Obtained planning consent for 780 new homes to regenerate former hospital site in Chichester.
> Secured appointment by newly-formed HCA for the redevelopment of former Gloscat College site for 350 homes.
> Value of direct grant awarded under the National Affordable Housing Programme up to £80 million.
> Increase in long term frameworks with affordable housing providers to 40.
> Awarded £10 million by the Government's Homebuy Direct Programme.
> Strong contracting wins in London.

Top: South Gate in Totnes, Overall winner of the 2009 Housing Design Awards
Bottom: Market Quarter, an eco excellent development in Chippenham

## AFFORDABLE HOUSING AND REGENERATION

Our leading market presence in affordable housing has contributed significantly to mitigating the effects of the housing market downturn and our track record in regeneration projects puts us in a good position to recommence growth in this well supported market as the economy recovers.

**Market**

The formation of the Homes and Communities Agency in December 2008, combining the investment function of the Housing Corporation and English Partnerships, has given further impetus to the role of private sector providers of affordable homes such as Galliford Try. The last year has seen a series of market interventions by the Government seeking to protect industry capacity and maintain affordable housing supply during difficult market conditions.

During the first half of the financial year, the market in public-led regeneration opportunities stalled as public commissioners adapted their business strategies to a falling market. This was mirrored by a fall in contracting opportunities on sites dependent on cross subsidy from sales. Following the creation of the HCA, greater programme flexibility and improved funding levels restored activity. New equity products and gap funding have enabled sites to continue production and encouraged client housing associations to commission new schemes.

The long term supply deficit will continue to drive demand, and in the short term, the additional public sector investment will secure supply. New supply mechanisms are being trialled by public commissioners to secure volumes at lower levels of direct public investment and to capture future growth in the value of public sector land holdings. The use of planning obligations to secure supply is no longer economically viable and therefore future releases of surplus public sector land and new intermediate housing models will become increasingly important to secure affordable housing supply.

**Strategy**

Our affordable housing and regeneration division strategy is to achieve sustained profitability through contracting, development and value-added services.

The market continues to favour the hybrid contractor/developer approach. Our ability to align development expertise with a strong partnering ethos and to extract synergies across the wide range of services we can bring to a project gives us a competitive edge. We aim to deliver increased value by leveraging our housebuilding and contracting activity to secure long term maintenance and service opportunities with our established client base.

Our relationship with the Homes and Communities Agency and our ability to secure and manage our directly funded investment programmes is pivotal. The production of affordable homes arising from planning gain will remain at historically low levels. But our presence in the affordable homes market will continue to mitigate speculative sales risk, provide access to public sector land releases and assist in cash generation. We supplement our sales of stock direct to housing associations and the promotion of land and build contracts to clients with the specialist promotion of intermediate market products.

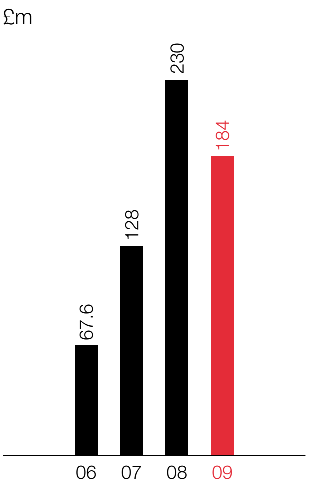
Our strategy of sustained presence in this market and supporting long term client relationships will assist us across the cycle. We will capitalise on our strong client base and our strong track record in joint venture offerings with the public sector in accessing PFI and public sector land initiatives. We aim to capture further market share as we strengthen our regional presence across the UK, particularly in the North West, Yorkshire, Humber and the Midlands.

**Performance**

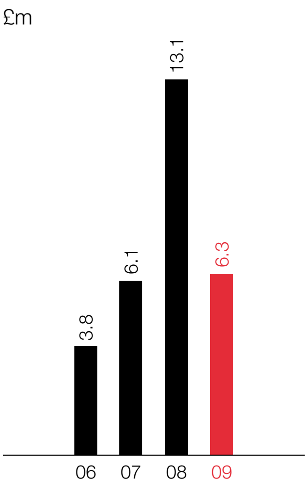
| | 2009 | 2008 |
|---|---|---|
| Revenue | £184 million | £230 million |
| Completions | 553 | 694 |
| Profit from operations | £6.3 million | £13.1 million |
| Operating margin | 3.4% | 6.0% |
| Landbank | 3,150 plots | 3,500 plots |
| Build contracts order book | £124 million | £149 million |

Profit from operations of £6.3 million was achieved on revenue of £184 million, including joint ventures, representing a margin of 3.4 per cent. Despite lowering values, as a result of improved grant rates during the year we maintained an average selling price of £129,000. During the year we achieved 553 completions and carried out a total contracting turnover of £113 million.

**Revenue**




**Profit from operations**




Direct funding from Government agencies provides cash benefits, forward visibility of revenues and enhanced operational control. Building on our relationship with its predecessor organisations, we have established a strong relationship with the Homes and Communities Agency (HCA) since its formation in December 2008. The value of the Group's directly funded programme under the National Affordable Housing Programme rose to £80 million during the year and we have established ourselves as one of the leading private sector providers. This has been supplemented by an initial award of £10 million for a Homebuy Direct programme. We have had fourteen sites shortlisted for £28 million of gap funding under the Government's Kickstart housing delivery programme, which will enable schemes that would otherwise be mothballed to achieve viability and continue production.

We increased our portfolio of regeneration schemes with schemes to deliver 390 homes outside Oxford and up to 350 new homes in Gloucester. This was the first scheme to be announced by the newly formed HCA and is a model for future public sector land releases that enable the HCA to extract value at the point of future sales rather than by an up front land payment.

Our strong presence in the South West and South East was highlighted with the completion of our award winning joint venture schemes with South Hams District Council and Sovereign Housing Association in Totnes and with Harlow District Council at Newhall. During the year we have replanned and rephased our major public sector regeneration schemes to enable development to start earlier on a commercially acceptable basis and assist in delivering the Government's housing objectives. Regeneration schemes at Grimsby and in Plymouth are continuing to deliver sales.

Our affordable housing contracting business, primarily in the South East and North East of England, continued to perform well and recently won a number of contracts, bringing our order book for affordable housing build contracts to £124 million.

We have increased the number of long term frameworks we have with affordable housing providers during the year with the total now standing at 40. Our affordable housing landbank stands at 3,150 plots compared to 3,500 last year.

Our geographical spread of activity has been maintained with sales risk being mitigated through significant land and build contracts in Bristol, Taunton, Peterborough, Windsor, Liskeard and Grimsby. In addition there have been strong contract wins in London and the South East with five projects worth a total of £109.5 million to regenerate communities and build 849 homes for housing associations in Greater London.

**Risk management**
We work with over 40 affordable housing providers throughout the industry, spread over the entire geographic area in which we operate, avoiding over concentration. We aim to secure phased payments on significant developments, including available grant from Government assistance schemes to control financial risk. We have significant pre commitment appraisal processes in place to ensure that due diligence on all aspects of development sites we acquire are taken into account in all our planning and commercial assessments.

Although some housing associations remain active in the land market, the continuing impact of tightened liquidity and reprofiling of rental growth has dampened the capacity of some to commission new schemes. Managing our relationships with financially robust clients and new entrants therefore remains key to meeting our objectives.

**Looking forward**
We expect the affordable housing market to show continued output in the 2010 financial year but at reduced volumes and to then expand as the market achieves balance between supply pressures and funding flexibility. Although there is pressure on future public sector funding, political pressures caused by the historic supply-side deficit will encourage fiscal solutions. We anticipate a growing focus on the intermediate market, public sector land releases and joint ventures as the market stabilises and improves.

The emergence of local authorities as directly commissioning clients and the capacity for Arms Length Management Organisations to initiate developments is driving change in our client base. Our track record of activity in joint ventures and ability to provide a contractor/developer package is a good fit for this market. We are strengthening our capacity to offer service agreements which will deliver facilities management and maintenance packages. We continue with our strategy for each of our housebuilding business units to have an anchor regeneration scheme as part of its portfolio. Our focus will remain on project delivery, restoring volumes and maintaining our strong position in the sector.

**£80m**

**Value of National Affordable Housing Programme funding**

# CONSTRUCTION A RECORD PERFORMANCE

With revenues of over £1 billion, Galliford Try is well into the top ten of UK contractors with industry leading businesses in the building and infrastructure markets.

The Group's construction activities are organised into two divisions, building and infrastructure.

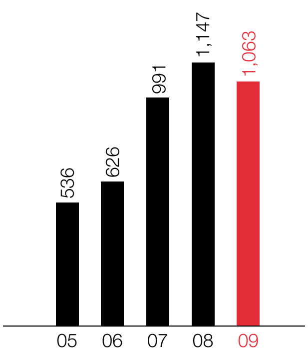
Total construction profit from operations rose 5 per cent to £26.9 million on revenue, including joint ventures, of £1,063 million which represents a margin of 2.5 per cent (2008: 2.2 per cent). Our total contracting order book (construction plus affordable housing contracts) currently stands at £1.7 billion. 84 per cent is in the public and regulated sectors and 92 per cent has been secured on a basis other than by pure price competition.

**Key Performance Indicators**

| KPI | Objective | Measure | 2009 Performance |
|---|---|---|---|
| **Profit from Operations** | To increase profit from operations year on year. | Profit from operations is stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax. | Increased to £26.9 million from £25.7 million in 2008. |
| **Work in Hand** | To secure a balanced visible stream of future profitable workload. | The size of the order book which is the total revenue expected to be generated from orders received. | Stood at £1.7 billion on 30 June 2009, having remained consistent throughout most of the year after reducing from £1.9 billion in the early part of the financial year. |
| **Operating Margin** | To deliver an upper quartile operating margin for each of the sectors we work in. | Profit from operations divided by revenue, expressed as a percentage. | Increased from 2.2 per cent to 2.5 per cent in 2009. |
| **Cash** | To monitor progress against the Group's overall cash objectives. | Specific monthly cash targets are set for each of the business units within construction. | The business operated with substantial cash balances throughout the year. The Group's performance is reported on page 9. |

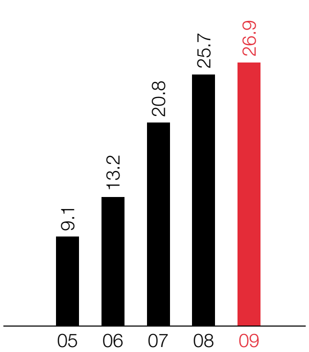
**Revenue**

£m



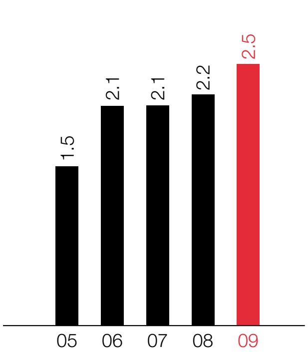

**Profit from operations**

£m



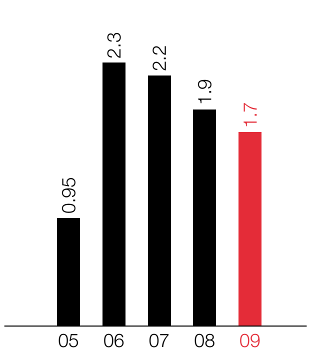

**Operating profit margin**

%




**Order book**

£bn



# COMPLETE BUILDING SOLUTIONS FOR PUBLIC AND PRIVATE SECTORS

69 per cent of the building division's order book is for the public sector and 31 per cent for private clients. Our largest single project is the £103 million contract for apartments and a hotel in the Victorian Gothic St Pancras Chambers in London. We also carry out minor building works as part of our facilities management business.

**2009 HIGHLIGHTS**

> Secured £103 million contract at St Pancras Chambers.
> Completed Centre Court stadium with retractable roof for the All England Lawn Tennis Club at Wimbledon.
> Won £205 million of education contracts.
> Added £49 million new health projects to current workload.
> Won place on NHS Scotland framework.

Left: Restored interior at St Pancras Chambers, London
Right: Milburn Academy, one of 11 schools for the Highlands Council

## BUILDING

Galliford Try is a provider of whole life building solutions, able to deliver projects across the UK. In addition to our core construction and design and build services, we carry out investment and development services and provide post construction property support.

### Market

Following several years when the market for building works has generally been good, the market has become increasingly challenging during the past year, particularly since the financial crisis in September 2008. The lack of finance for development has significantly affected the amount of new work being commissioned in the private commercial and industrial sectors. In addition, as the implications on future public sector borrowing resulting from the Government's economic actions have become apparent, a number of public sector clients have become more cautious in commissioning building projects. Notwithstanding this, ongoing building programmes in the health and education sectors, in which Galliford Try is strong, are expected to continue for the foreseeable future, with custodial and defence work also seeing Government investment programmes continuing.

### Strategy

The building division's strategy is to deliver complete building solutions and services to clients across the UK. In England and Wales the business operates as Galliford Try and, based on its long heritage, as Morrison Construction in Scotland. With the Group's long experience in framework and partnering arrangements to enable clients to take advantage of the benefits of early involvement and planning with consequent improvements in buildability and ultimate cost effectiveness; the division's strategy is to become more sector focused on those markets, such as education and health, where this approach is being retained.

### Performance

| | 2009 | 2008 |
|---|---|---|
| Revenue | £546 million | £605 million |
| Profit from operations | £13.0 million | £11.9 million |
| Operating margin | 2.4% | 2.0% |
| Order book | £730 million | £790 million |

Profit from operations of £13.0 million on revenue of £546 million, including joint ventures, represented a margin of 2.4 per cent, underpinned by the generation of excellent cash balances throughout the year.

Our strong presence in the education sector has continued throughout the year with £205 million of education contracts awarded since July 2008, including major projects for West Kent College, and the Islington, Wren and Harries academies.

In the health sector we were appointed one of five contractors on the NHS framework in Scotland for building projects and we handed over the St Andrews Community Hospital PFI scheme. We continued to both deliver existing projects and secure new work through our five NHS LIFT partnership frameworks with primary care trusts including three new projects in the Liverpool and Sefton LIFT. The total value of health contracts awarded since the start of our new financial year is £49 million. To add to our custodial frameworks, we secured the £47 million Parc Prison in Bridgend.

Work is proceeding well on our £41 million National Museum of Liverpool project and, in the commercial sector, our £103 million redevelopment of St Pancras Chambers in London into a 244 bedroom hotel and 67 apartments. Although there are fewer opportunities available, we continue to secure commercial projects, and were delighted that £83 million of hotel projects were secured recently in the South of England.

Our project to rebuild the Centre Court stadium at the All England Lawn Tennis Club at Wimbledon culminated this year with the completion of the retractable roof, used successfully at the 2009 championships for the first time, enabling crucial matches to be played during periods of rain and into the night. We have now commenced a two year project to build a new number three court.

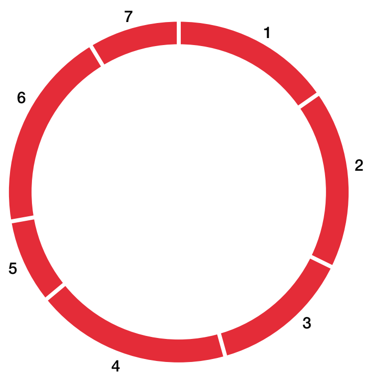
**Risk management**
The division has mature risk management processes covering all aspects of the construction process. As the economic conditions changed during the year we adjusted our controls to ensure that our credit control procedures and our tender approval and legal and commercial processes reflected the new conditions.

**Looking forward**
During the forthcoming year our objective is to maintain an inflow of work that can be carried out at sustainable profit margins, controlling the risks of the likely increase in the proportion of work that is expected to be secured on a pure price competitive basis. We will target specific opportunities from within our health sector frameworks in Scotland and the Primary Care LIFT frameworks and will strengthen our teams dealing with the national programmes for education and health construction that will remain a key focus for us. We will also continue to work selectively for clients in the commercial building and leisure sectors.

Currently, the division's order book is £730 million of which 89 per cent has been secured on a basis other than on pure price competition and 69 per cent is in the public and regulated sectors.

**Building order book**

£730 million




| | | | | | |
|---|---|---|---|---|---|
| 1 | **Health** | 113 | 5 | **Interiors** | 58 |
| 2 | **Education** | 123 | 6 | **Facilities management** | 140 |
| 3 | **Prisons** | 97 | 7 | **Other public sector** | 62 |
| 4 | **Commercial** | 137 | | | |

# DELIVERING INFRASTRUCTURE PROJECTS ACROSS THE UK

Galliford Try's civil engineering skills currently range from remediation work at Olympic Park in East London to road construction in Scotland, including the £445 million M74 extension in Glasgow. Backing up our specialist water, rail and major highways businesses, we are developing further our regional civil engineering service across the country.


**2009 HIGHLIGHTS**

- Secured further civil engineering framework at Olympic Park for work through 2012 up to 2014.
- Won position on £1 billion framework contract for Network Rail.
- Completed largest on-shore wind farm in Europe at Whitelee in Scotland.
- Handed over first early contractor involvement highways project in Cumbria.
- Secured first five year AMP5 framework renewal for United Utilities.

Above: M40 bridge removal for the Highways Agency
Left: Waste water treatment works at Wigan for United Utilities

## INFRASTRUCTURE

Galliford Try is one of the UK's leading contractors working for major public and regulated utility clients on the country's infrastructure. We have a national capability in carrying out major civil engineering projects underpinned by strong regional and sector focused teams.

### Market

Investment in the major public and regulated utilities sectors in which we work has been strong over the past three years and, despite the onset of recession, still provides visibility of opportunities going forward. In water, the current asset management programmes with the water utilities (AMP4) are coming to an end with the AMP5 programmes due to commence in early 2010 and run to 2015. We have already secured the renewal of two of our frameworks, with the renewal process with all the water companies anticipated to be completed around the end of 2009.

The market in flood alleviation and other environmental works is being maintained and there are a number of opportunities in both rail and transport. Although the Government has stated that it is maintaining current investment programmes, in the longer term we anticipate that the programmes being undertaken by our regulated utility clients will prove to be more resilient as Government constrains expenditure to deal with the implications of its actions during the recession on public borrowing. Clients across our markets increasingly demand improved efficiencies and demonstrable improved value from their supply chain partners.

### Strategy

Our strategy to provide services to the national infrastructure markets from centres of sector expertise remains unchanged. Our transport, water, civil engineering, remediation, renewable energy and related specialist service sectors will form the backbone of our business, although we are targeting an increase in our share of the market in regional civil engineering projects to supplement our major project business. Most of our work is secured through long term frameworks, however we have a good track record in supplementing framework projects with one off contracts for our key client base and we anticipate that these opportunities will increase as clients will more frequently use open market tendering when the market is more competitive during recessionary times.

Developing our new business in renewable energy from windfarms and waste continues. We are also undertaking a drive to further improve cost savings through our procurement strategies and supply chain.

### Performance

| | 2009 | 2008 |
|---|---|---|
| Revenue | £517 million | £541 million |
| Profit from operations | £13.9 million | £13.8 million |
| Operating margin | 2.7% | 2.6% |
| Order book | £844 million | £942 million |

Profit from operations of £13.9 million was achieved on revenue of £517 million, including joint ventures, representing a margin of 2.7 per cent, with better than forecast cash generation during the year.

In water, we have maintained our sector leading position in the key performance indicators used by clients. With long term framework contracts with 70 per cent of the largest water utilities in the UK, this is an important factor in our strategy to renew those contracts for the 2010 to 2015 period, and we have already secured our position on the £2 billion capital works framework for Scottish Water as well as the £400 million capital works framework for United Utilities.

In our Highways business we have successfully completed our first early contractor involvement scheme at Parton in Cumbria and are making good progress on our £50 million M40 scheme for the Highways Agency. In Scotland, good progress is being made by our four party consortium constructing the Scottish Executive's largest ever road scheme, the £445 million M74 extension in Glasgow. We have also been appointed as a contractor on Network Rail's £1 billion enhancements multi asset framework, which follows on from our buildings framework agreement.

Our earthworks remediation framework at Olympic Park in East London for the Olympic Delivery Authority, continues to perform well. During the year we secured an additional civil engineering framework for the ODA at Olympic Park, that will take us through 2012 to 2014, as well as a £20 million scheme to construct the white water canoeing centre at Broxbourne and a £5 million contract to carry out civil engineering works at the rowing centre at Eton Dorney Lakes.

We have made good progress in developing our renewable energy services to clients seeking on site generation of electricity, and are working with a number of the major supermarket chains. We have also been appointed by the joint venture developing the 780 home net carbon neutral project at Chichester to deliver the energy requirements.

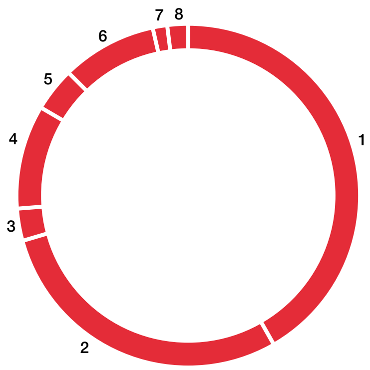
**Looking forward**

During the forthcoming year our objective will be to maintain our market share in our existing key sectors with specific focus upon the water framework renewals. We will continue with the development of services in our new markets of renewable energy, and work further on opportunities for providing civil engineering services to the waste and nuclear sectors. Throughout these processes we will focus on maintaining our leading performance in customer satisfaction through our key clients' KPI measures.

Our current infrastructure order book is £844 million of which 95 per cent has been secured on a basis other than on pure price competition and 98 per cent is in the public and regulated sectors, with 86 per cent in long term framework agreements.

**Infrastructure order book**

£844 million




| | | | | | |
|---|---|---|---|---|---|
| 1 | **Water** | 353 | 5 | **Renewable energy** | 36 |
| 2 | **Highways** | 245 | 6 | **Rail** | 75 |
| 3 | **Remediation** | 26 | 7 | **International** | 11 |
| 4 | **Flood alleviation** | 83 | 8 | **Communications** | 15 |

## PPP INVESTMENTS

We aim to meet clients' requirements for innovation, quality, deliverability and affordability to provide solutions with the optimal mix for delivering major building and infrastructure projects through Public Private Partnerships. We have long established relationships with the funding community, having raised debt and equity for projects totalling £1.3 billion. We manage construction delivery into operations and we have a successful record of delivering profitable investments.

**Market**

Public Private Partnerships cover all forms of public sector and private sector partnering relationships. Private Finance Initiative is a form of PPP which uses private sector finance and investment ("project finance") to fund and deliver public sector assets and services.

Over the past 15 years, PFI has become a major procurement route for the construction of the nation's essential infrastructure, representing circa 15 per cent of total investment in public services in any one year. The UK Treasury continues to support the procurement of public assets through PFI and other similar adapted models.

There are active procurement programmes across the UK in place for education, custodial services, health, housing, fire services, waste, roads and rail.

**Strategy**

Our strategy continues to be bidding for PPP projects that create both investment opportunities and provide the opportunity to secure construction contracts for the Group.

We remain committed to pursuing projects in cases where we believe there is favourable balance of risk and reward, coupled with likelihood of success. Affordable housing projects and waste schemes are at the forefront of our intended pipeline, as the UK Government gives these increasing priority.

Equity disposals will continue to be made when they can realise best value, particularly in respect of those projects where we remain equity holders in the operational phase.

**Performance**

| | 2009 | 2008 |
|---|---|---|
| Revenue | £27.4 million | £36.7 million |
| Profit from operations | £0.5 million | £0.3 million |
| Directors' valuation | £19.2 million | £20.2 million |

Revenue was £27.4 million (2008: £36.7 million). The profit from operations was £0.5 million (2008: £0.3 million). Having completed the construction phase of our Ministry of Defence housing project in Portsmouth the previous year, we sold our equity interest during the year, and with the Highland Schools project entering its operational phase, we completed the disposal of our remaining investment to HSBC Infrastructure fund after the year end for £16.8 million.

The directors' valuation of the Group's PFI/PPP portfolio as at 30 June 2009 was carried out, as in previous years, on a discounted cash flow basis. The valuation took into account known disposal proceeds as well as current levels of liquidity within the banking and funding markets for long term PFI projects and the potential on refinancing. The result showed a valuation of £19.2 million, which compares to the value invested in the Group's accounts of £10.2 million (2008: valuation of £20.2 million and value invested of £9.1 million).

We secured the preferred bidder position for the £65 million Worcester Library and History Centre during the year. We are directly funding 100 per cent of the equity in the project, and are now working towards financial close. We are currently on a shortlist of three for the major South Tyne and Wear Waste project. Going forward, our efforts will be focussed on securing positions on shortlists with a particular emphasis on the education, health, housing and waste sectors.

**Risk managment**

Due to the significant costs required to bid, the selection of projects to bid is crucial to the performance of the PPP investments Division. Project selection and the right partners therefore are central to bid success and ongoing delivery.

We restrict the number of projects bid to those where we have the capacity to deliver, with the greatest likelihood of success. We take a proactive approach to bidding and we plan for as much early involvement as possible. On all our joint venture PFI investments, we have board representation and performance is reviewed on a monthly basis.

**Looking forward**

We are working towards financial close on the Worcester Library and History Centre and are currently on a shortlist of three for the major South Tyne and Wear Waste project. Going forward, our efforts will be focussed on securing positions on further shortlists with a particular emphasis on the education, health, housing and waste sectors.

## PRINCIPAL RISKS AND UNCERTAINTIES

The board is committed to identifying, evaluating and managing the principal risks and uncertainties facing the Group and has a set of processes and procedures that enable it to do so. They are embedded within our management structure so that they are followed as part of our normal operating procedures.

The board has an established register detailing the strategic, financial and operational risks potentially affecting the Group's businesses and relating them to the Group's objectives. These include economic factors and market conditions, the effect of competitor activities, gearing, regulation and project risk. Each risk is rated based on its likelihood and its potential impact on the Group should it materialise. This is then related to how the risk is managed, the responsibility for management and how achieving the objective is monitored.

The Group reviews risk management on a regular basis and carries out an annual strategic review of its processes and ratings in conjunction with the requirement to review and demonstrate effective internal controls. This ensures that as new risks emerge in connection with general market developments, group strategy or with projects, appropriate action can be planned. Further detail on the board's internal controls and risk management procedures are included in the Corporate Governance Report.

The following principal risks and uncertainties have been identified that may have an impact on the Group. Further information on risk is also given in the sections of the Business Review for each division and in the Financial Review.

**Market related**

The market sectors in which the Group operates are subject to the macro economic conditions in the UK and Government policies. Our housebuilding business will be affected by the state of the housing market as it impacts the ultimate price that purchasers are prepared to pay for their homes and the price and terms under which the Group purchases land for development. The availability and price of mortgage finance for our homebuyers impacts our business and we follow trends in the lending markets closely.

Public sector spending and the investment programmes of the regulated infrastructure sectors affect the markets for much of our construction activities. The conditions for each market sector change over time and we react to this by a business planning process that sets the level of resources allocated. We gather both published and informal intelligence on the markets, monitoring closely our order books and potential opportunities. Prior to the onset of the recession and financial crisis we had started to monitor more closely the availability of development finance to our private sector clients and the likely long term effect of Government economic action on public expenditure.

Our contracting order book and our landbank are important key performance indicators that we measure on a continuous basis, forecasting forward to enable us to plan the resources we need to carry out the business.

**Financial**

The Group requires access to adequate financial resources for investment to deliver its objectives in housebuilding and to manage cash across the Group. We depend on our equity base, cash generation from operations, and debt facilities. We manage this both through cash reporting and short term forecasting on a weekly basis together with longer term forecasts that inform our financing structure. Our cash/debt key performance indicator assesses our position. We have a five year bank facility with four of the UK's major leading banks, and we continually monitor our forecasts against the headroom and covenants of the facility.

The size of our final salary pension deficit is dependent on factors outside the Group's control, including investment, inflation and mortality risk. Contributions are agreed with the Trustees following triennial valuations.

**Project related**

As a primarily project related business, the Group depends on the award of contracts in its construction businesses and the acquisition of development sites in its housing business. In the housing division we have a rigorous pre acquisition appraisal process covering purchase, construction and selling on our developments.

In our construction business the commercial risk we take on each contract depends on the contractual terms under the procurement route that the contract has been secured, the nature and complexity of the works and the duration of the project. We have a rigorous approach to contract selection to ensure that the work we undertake matches our capabilities and the resources we have available, that the terms under which we are to carry out the work are acceptable and that clear responsibility for scrutiny and approval is given by the right level of management. This includes procedures to assess credit and counterparty risk, which changes in line with the general economy. Nevertheless, there remains a potential for contractual disputes over the scope and/or valuation of contracts, and forecasting the ultimate outcome of contracts can be uncertain. We depend on our business information systems to operate effectively for internal control and financial management. As we look to develop our overseas business, there are risks in operating in other countries and business cultures that we will aim to control in line with our proven UK based practices.

Profit from operations is the key performance indicator that measures how our operating divisions have performed.

**Health, safety and environmental**

We are operating on several hundred sites on which construction operations are being carried out at any time. We need to provide a safe working environment for our employees, all others who work on our sites and members of the public. We recognise the significant impact on individuals and our business if we do not achieve this. The Group therefore treats health, safety and environmental issues as a priority and has a comprehensive policy and framework in place to manage these risks. We use our accident incidence rate as our key performance indicator to determine our performance.

"Risk management is embedded within the business as part of our standard operational procedures."

**Human resources**
The future success of the Group is critically dependent upon attracting, developing and retaining talented individuals in the business at all levels. We base our human resources policies on the Investor in People principles and we have achieved IIP accreditation for all businesses across the Group. Staff churn is the key performance indictor against which we measure progress.

## SIGNIFICANT RELATIONSHIPS

Relationships are important to Galliford Try: the business has been built on a collaborative culture that permeates throughout each of our operating divisions.

**Clients and customers**
Our building and infrastructure businesses have many long term relationships with key clients that provide work over many projects, particularly those that operate through 5 or 10 year framework agreements. Although no one client would account for more than four per cent of revenue in any one year, major clients in our building and infrastructure divisions will include:

> Companies for whom we carry out infrastructure frameworks such as the seven regulated water utilities for whom we are working under their asset management programmes.
> The Scottish Executive and The Highways Agency for whom our infrastructure business carries out significant programmes of highways work.
> The private finance initiative project companies through which our major PFI projects are constructed.
> The All England Lawn Tennis Club at Wimbledon with whom we have been working for over 35 years.
> The Olympic Delivery Authority for whom we are carrying out remediation and civil engineering works for the Olympic Games in 2012.
> Manhattan Loft Limited, for whom we are carrying out a £103 million contract to redevelop St Pancras Chambers in London.

Our performance in delivering projects to our construction clients and meeting our home buyers' aspirations is fundamental to the success of the business. For our construction clients, our achievement of performance standards and their feedback is used to improve our service going forward.

**Business partners**
We carry out some of our projects in joint ventures with other partners. Our key joint venture partners are engineers, other contractors and consultants on our frameworks for the water utilities and our larger highways projects in our infrastructure business. In housebuilding we redevelop some of the larger sites in joint venture. These include the Epsom Hospital Clusters, being carried out with Crest Nicholson, Graylingwell being carried out with Affinity Sutton Housing Association, and a series of joint ventures with Bank of Scotland in London and the South East.

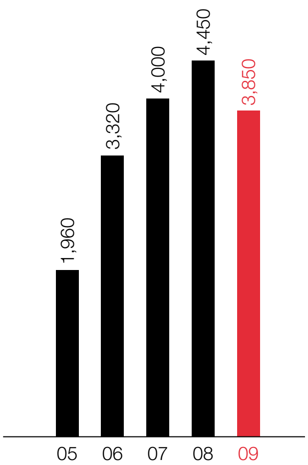
**Supply chain and service providers**
We believe that developing long term relationships with all who provide services to our business, such as consultants, sub contractors, service providers and materials suppliers is crucial to our ability to provide our clients and customers with projects that deliver to the highest standard. By working closely with these providers, we find new and better ways to improve our service, increasing our efficiency, minimising our costs and addressing key performance requirements for health, safety and environmental matters.

Throughout its businesses the Group has relationships with firms of architects, engineers and other consultants as well as with larger firms of sub contractors and materials providers.

The Group also has key relationships with its providers of corporate services such as surety bonding, legal advice, insurance and finance.

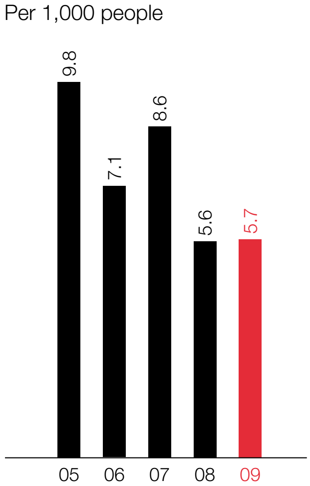
**Number of employees**

As at 30 June




**Accident incidence rate**

Per 1,000 people



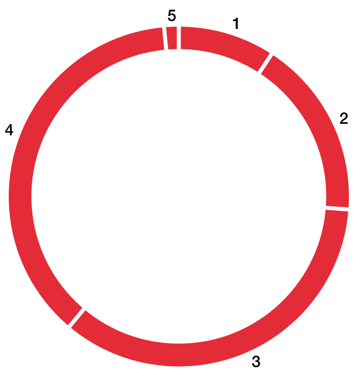
# ROBUST FINANCES AND STRONG CASH MANAGEMENT

Excellent cash generation from our construction businesses and tight controls in housebuilding resulted in a £34 million positive net cash balance at the year end.

**Frank Nelson,** Finance Director

**Profit from operations**

£31.2m*




| | | | |
|---|---|---|---|
| 1 **Housebilding** | 3.5 | 4 **Infrastructure** | 13.9 |
| 2 **Affordable housing** | 6.3 | 5 **PPP Investments** | 0.5 |
| 3 **Building** | 13.0 | | |

* Stated after Group costs of £6.0 million

## FINANCIAL RESULTS

The Group was affected by the impact of the severe downturn in the housing market that followed the financial crisis of September 2008. Group revenue for the year to 30 June 2009 was £1,461 million (2008: £1,832 million) and pre-exceptional profit from operations (stated before finance costs, amortisation, share of joint ventures' tax and exceptional items) decreased to £31.2 million (2008: £85.4 million). The Group has recorded exceptional items of £51.4 million (2008: £11.5 million) and a loss before income tax of £26.9 million (2008: profit £60.3 million).

Construction profit from operations was up 4.7 per cent to £26.9 million representing a margin of 2.5 per cent. Within this the profit from operations of our building division was £13.0 million, representing a margin of 2.4 per cent and of our infrastructure division was £13.9 million, representing a margin of 2.7 per cent. PPP Investments made a profit from operations of £0.5 million in the year compared to £0.3 million in the previous year. The affordable housing and regeneration division profit from operations was impacted by the housing market downturn and profit from operations fell 52.0 per cent to £6.3 million representing a margin of 3.4 per cent. Our housebuilding division was most affected by the downturn in the housing market and profit from operations fell 93.4 per cent to £3.5 million representing a margin of 1.5 per cent.

### Principal risks and uncertainties

The significant deterioration in the UK's economic conditions that occurred during the period following the financial crisis in September 2008 has increased the level of uncertainty within the markets in which the Group operates. The macroeconomic effects, in particular reduced liquidity, initially impacted the Group's housebuilding activities and are subsequently also affecting the market for financing construction projects, particularly those in the private sector. The impact on housebuilding resulted in the further review of the carrying value of assets in the Group's balance sheet which led to the exceptional write down of housing related assets as noted below. The Group's investments in its housing joint ventures are continually kept under review, as they are financed by individual project specific bank facilities, some of which are being renegotiated to meet the changed market requirements, and by shareholder loans (note 35 related party transactions).

Subject to the above the directors consider that the nature of the principal risks and uncertainties which may have a material effect on the Group's performance are on page 22 of these annual financial statements.

**Exceptional items**

In light of the significant further deterioration in the housing market during the period, the Group has completed a review of the carrying value of its housing assets and operations. Total exceptional costs of £51.4 million have been accounted for in the period comprising write downs of housing related assets of £50.4 million and redundancy costs of £1.0 million (30 June 2008: £11.5 million).

**Financing**

The Group's construction businesses continued to generate excellent cash flows throughout the year and at the year end net cash was £34.1 million compared to £1.7 million net debt at the previous year end.

Net Group interest payable, excluding the financing cost associated with financial derivatives, was £3.9 million (2008: £10.1 million). Net interest associated with bank borrowings and cash amounted to £1.7 million (2008: £7.2 million) reflecting average net borrowings of approximately £65 million (2008: £118 million). The net Group interest payable, excluding the finance cost associated with financial derivatives, was covered eight times (2008: eight times) by the pre-exceptional profit before finance costs. The cost associated with the re-measurement of the fair value of financial derivatives of £3.5 million (2008: £0.7 million) arises from reductions in interest rates. The Group entered into a five year bank facility for an aggregate total amount of £450 million in February 2007 with HSBC, Barclays, Royal Bank of Scotland and Bank of Scotland. The facility provides working capital, development finance and bonding. £150 million is on an amortising basis to £96 million by the facility maturity date in 2012, and at 30 June 2009 stood at £126 million. The facility is subject to covenants on interest cover, minimum net assets, gearing and security over housebuilding development sites. Overall debt levels do fluctuate throughout the year, but the Group has substantial headroom within its banking facilities and continues to operate within the covenants of those facilities. The facilities bear interest at floating rates, subject to the interest rate swap arrangements referred to below.

**Taxation**

The total tax charge of £6.0 million on the before exceptional items profit of £24.5 million represents an effective rate of 24.5 per cent. This is lower than the standard rate of taxation of 28 per cent due to the reduction in capital gains tax resulting from substantial shareholder relief being claimed on the profit on sale of joint ventures during the year. The tax credit associated with the exceptional items of £15.1 million represents 29.4 per cent. This is higher than the standard rate of taxation as the exceptional losses have been carried back to the previous year, when the standard rate of taxation was 30 per cent until 31 March 2008.

**Goodwill and intangibles**

The carrying value of goodwill and intangibles is £115.0 million and £8.2 million respectively. The Group carries out annual impairment tests in relation to these amounts. These calculations use pre tax cash flow projections based on three year financial budgets approved by management based on past performance and its expectation of market developments. The key assumptions within these budgets relate to revenue growth and the future gross margin achievable. Further details of the impairment tests performed are set out in note 10. The calculations were carried out following the year end on 30 June 2009 and do not indicate that there is an impairment of these assets.

**Treasury management**

The Group operates within polices and procedures approved by the Board. The Group's financial instruments principally comprise bank borrowings, cash and liquid resources that arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group finances its operations through a mixture of retained profits and bank borrowings. The contracting operations of the Group generally generate cash and are budgeted to be cash generative. The housebuilding operations, however, require cash to invest in land and work in progress. In light of current market conditions, rigorous controls are in place to ensure borrowings are maintained at an acceptable level. On a daily basis throughout the year, the bank balances or borrowings in all the Group's operating companies are aggregated into a total cash or borrowing figure in order that the Group can obtain the most advantageous interest rate.

All material activities of the Group take place within the United Kingdom and consequently there is little direct exchange risk other than payments to overseas suppliers who require settlement in their currency. If there is any material foreign exchange exposure, the Group's policy is to enter into forward foreign currency contracts. The Group has no material currency exposure at 30 June 2009. The main risk arising from the Group's financial instruments is interest rate risk and this is reviewed by the board on a regular basis. The Group policy is to accept a degree of interest rate risk as long as the effect of various changes in rates remains within prescribed ranges. The Group has entered into a swap agreement which has the effect that £57 million of borrowings are fixed at 5.7 per cent for the period of the existing bank facility.

**Pension costs**

The Group's main final salary pension scheme was closed to future service accrual and the Group is committed to making regular deficit funding contributions to the scheme going forward of £7 million per annum. The total cost of pensions charged to the profit and loss account in the financial year amounted to £7.7 million (2008: £6.1 million).

Under IAS19 "Employee Benefits" the defined benefit deficit of the Group's final salary pension schemes was calculated as at 30 June 2009 by an independent qualified actuary and the gross deficit recognised on the balance sheet as £27.5 million (2008: £27.4 million). This has an overall impact net of deferred tax, of £19.8 million (2008: £19.7 million). Further detail on pensions is given in note 32.

# CONSTRUCTING A SUSTAINABLE FUTURE

We aim to ensure the long term success of our business by contributing economically, environmentally and socially to the communities in which we operate.

**Vision and values**
Our approach to corporate responsibility is underpinned by our vision, which demonstrates our commitment to sustainable development:

**"To be leaders in the construction of a sustainable future"**

We define corporate responsibility (CR) as "the management of our economic, environmental and social responsibilities to benefit our stakeholders and future generations". Our vision is the foundation of our approach to corporate responsibility and the cornerstones of this foundation are our values. These are:

**Excellence** – striving to deliver the best
**Passion** – committed and enthusiastic in all we do
**Integrity** – demonstrating strong ethical standards with openness and honesty
**Collaboration** – dedicated to working together to achieve results

Our corporate responsibilities span health and safety, climate change and the environment, our people, community involvement, procurement and our supply chain, corporate governance and economic sustainability. We recognise there are business benefits and opportunities for the Group in the proper management of its corporate responsibilities.These include increased efficiency improvements. Furthermore, driving forward our CR agenda helps to give us a competitive advantage.

Our 2009 Corporate Responsibility Report includes further information on all our CR activities together with case studies on how we apply best practice. It is available from the Company or at www.gallifordtry.co.uk

**CR management and strategy**
In the last year, Galliford Try has undertaken a step-change in the management of CR. A CR manager was appointed to take responsibility for day-to-day affairs, liaison with individual businesses and coordination of activity and initiatives across the Group.

Our first CR policy, which includes objectives for the following 12 months, was published on our website, intranet and throughout the Group. A CR steering committee, appointed by the Executive Board and chaired by an executive board member, consists of operational and services directors and meets on a quarterly basis to promote cross-group initiatives.

Formulation of a three-year CR Strategy has been concluded, which integrates CR into our business activities and aims to:

> Identify opportunities for improving efficiencies/reducing cost
> Improve customer and industry perception of Galliford Try
> Develop future plans to minimise risk and maximise opportunity from rising environmental costs, emerging legislation and changing client/societal expectations.

We have identified six strategic objectives for CR during the period 2009–11. A comprehensive action plan underlines each of these objectives.

| Objective | Progress to date |
|---|---|
| 1. To enhance the profile of CR across the business | Regular executive, divisional and business unit updates and briefings are underway. |
| 2. Record and evaluate current CR practices | In 2008/09 we engaged an external consultancy to carry out a review of our strengths, weaknesses and opportunities across our CR disciplines. This process included a significant number of employee interviews. |
| 3. Identify a suite of CR key performance indicators | Specific KPI's for actioning across the Group are being formulated. |
| 4. Develop a roadmap to support contribution to CR across the business | Workshops are planned to develop plans following the conclusion of the external review. |
| 5. Continue to form strategic partnerships with sector and governmental organisations | Ongoing at both local and national levels. |
| 6. Develop our capacity to offer sustainable choices | Ongoing to demonstrate and improve our track record. |

**Health and safety**
We are committed to a policy of effectively managing all aspects of health, safety and welfare. We maintain our fundamental belief that everyone has the right to return home unharmed at the end of each and every working day.

Ken Gillespie is the executive board director responsible for health, safety and the environment. Reporting to him is the Health and Safety Director who has over 50 staff in the health, safety and environmental team. We have maintained our Group-wide certification to the independently assessed health and safety management system standard, OHSAS 1801 which is regularly audited. Our annual health and safety action plan remains focused on our six key principles for continual improvement; Leadership, Planning, Teamwork, Communication, Control and Behaviour.

Monitoring and reporting our performance across the Group is a major part of our control system and enables us to target areas for improvement. In the year to 30 June 2009 the Group achieved a consistent performance compared to 2008 which itself showed a significant improvement over the previous year. Our accident incidence rate, for each 1,000 persons at risk, was 5.7 compared to 5.6 in 2008 and 8.6 in 2007. We also measure the number and frequency of reportable accidents across the Group which fell to 76, a 9 per cent reduction from the previous year, leading to a consistent rate of 0.24 reportable accidents per 1,000 hours worked. Our measures do not just relate to our own employees but all those working on our sites, whether employed by ourselves or one of our contractors.

With over 170 visits from the Health and Safety Executive there have been no enforcement notices served. However, the Group had one prosecution for a breach of regulations in relation to an incident in 2005 that left a joiner with a broken leg. Past incident investigations have highlighted the importance of regular reinforcement of site disciplines, and effective communication of site plans and changes. As a result the ‘First 10 Minutes’ communication tool, used at the start of each day with all site personnel, was introduced across the Group to ensure safety checks are made and also to identify daily changes in site conditions.

We have increased both the number of internal trained auditors and the scale of auditing of health and safety compliance. This has necessitated the production of a stringent audit protocol, standard reporting process and the use of measurable corrective action plans. 72 audits were carried out during the year and over 350 specific health and safety visits were made by directors and senior management over and above the regular visits they make in the normal course of their jobs.

Looking forward, the next stage of our behavioural safety training programme is being started with 300 staff due to attend “Safe Mind/ Safe Body” leadership courses.

**Our people**

The value we place on our employees is central to our culture. Underpinning our entire people strategy is the Investor in People standard to which every part of the Group is accredited.

Today, Galliford Try employs 3,850 people, compared to 4,450 a year ago. Continuing to develop strategic human resources policies and practice, underpinned by our commitment to the Investor in People standard, is our objective as we aim to be an employer of choice.

The Group undertook significant redundancy programmes during the year, particularly in its housebuilding business to deal with the market downturn. However, agreement was reached with all employees in housebuilding to work a four day week at a reduced salary from January to June 2009 to avoid further redundancies and enable the Group to retain a geographic structure and the core skills required for when economic conditions improve and the business can grow again. We were delighted to be able to return to full five day working from July 2009.

We carried out our annual employee survey which showed that 83 per cent of employees stated they were satisfied with their job. This is 8 per cent down on the previous year, and reflects the impact of the economic downturn on the Group. The number of voluntary leavers continues to decline and our churn rate has fallen by 4 per cent to 12.3 per cent over the last 12 months.

Learning and career development remains an important part of our strategy. All employees undertake an annual performance and development review which is based on a competency framework and the measurement of behavioural skills to inform our investment in learning and development initiatives. It also helps the preparation of our detailed training plans which are developed across each business unit as well as ensuring employees focus on their own career objectives. Following a successful start to the Galliford Try Academy, launched the previous year, we are now embarking on our second round of training plans for school leavers, graduates or day release training. Although absolute numbers are down on the previous year due to the effects of the economic recession, we will continue to provide training schemes to a level that the business can support. 1,814 training days were delivered to 365 employees on management development during the year.

Our commitment to equal opportunities is designed to ensure that all our employees, regardless of race, gender, nationality, age, disability, sexual orientation, religion or background, have the opportunity to develop their full potential within the Group. We recognise the value of a diverse workforce and have policies and practices in place that provide a fair opportunity for everyone in respect of employment, entry to employment, benefits, training, placement and promotion.

Looking forward, we will continue to base our people policies on the Investor in People standard. We aim to extend the scope of development courses offered through the Galliford Try Academy to employees requiring refresher courses later in their careers as well as develop further our initial intranet based training tools.

**Clients and customers**

Our business is built on total commitment to our customers. In housebuilding, prospective purchasers are helped every step of the way, from the first time they make contact, to the day they move in and beyond. Over 90 per cent of our customers state they would recommend us to their best friend in independent research.

Our construction work relies on long-established collaborative relationships. These relationships create a genuine sense of partnership, stimulate innovation, and result in strong long term order books. We undertake our own client perception surveys at project close and feed the results into a central database. We also engage an external organisation to gather client feedback annually and, looking forward, this process is being completely overhauled to provide a more powerful appraisal tool.

**Environment**

We aim to protect the environment in all we do and, recognising the potential to affect local communities, to minimise the impact of construction operations. Our action plans are focused on six key objectives:

> Performance – To assure policy commitments to prevent pollution by reducing the number of environmental incidents.
> Leadership – Senior management leadership on all environmental issues with a visible environmental charter.
> Planning – Effective planning for all construction operations including a pre construction environmental risk register for all new projects.
> Teamwork – raising environmental awareness both internally and with our business partners.
> Communication – Effectively communicating environment information and integrating environmental reporting into standard Group procedures.
> Control – Robust standards for the systematic identification and rectification of environmental issues across the Group through the Group environmental policy, standards and external audited certification to ISO 140001.

Our analysis of the impacts that we have on the environment had led us to focus on the following key areas:

Waste Management – We aim to minimise the quantities initially generated and then maximise the reuse, recycling or recovery of waste materials to ensure that disposal to land fill is minimised. We are signatories to the Major Contractors Group sustainability charter. We make monthly inspections of every site in order to complete a site safety and environmental review that includes assessing our performance regarding waste management. Our site project environmental plans require us to specify environmental objectives and targets at the start of each project. These are audited as part of our regular site audit process of all health, safety and environmental issues.

During 2008, we commenced an initiative to monitor and report our waste management performance. The results showed that the proportion of waste diverted from landfill was 90.5 per cent. Excluding the reuse and recycling of inert wastes on site, which we undertake whenever possible, the proportion is 53 per cent. This gives us a benchmark to plan actions to reduce.

Carbon Footprint – Our own internal sustainability efforts during the year have focused on:

> Establishing the benchmark for the carbon footprint of our own offices.
> Working on systems to establish the usage of energy across all our construction operations, this focuses on power consumption, fuel oil and vehicle usage.

We are also working on our carbon footprint data to prepare for the Carbon Reduction Commitment requirements when implemented and to be able to benchmark ourselves more effectively by using externally accredited bodies such as the Carbon Disclosure Project and the NextGeneration Sustainability Index.

We submitted our first response to the Carbon Disclosure Project. This is the most respected global carbon management project, collecting information on how corporate organisations approach climate change. We have reported on our:

> Strategy – how it ties in with corporate responsibility.
> Allocation of responsibility – reinforcing the link between board, steering committee and CR management.
> How we communicate our position and plans internally and externally.
> Identification of risks and opportunities, both now and into the future.
> Data on direct and indirect greenhouse gas emissions comprising our Scope 1 and 2 emissions.

The initial determination of our carbon footprint from our permanent office locations indicate 1,125 tonnes of $CO_2$, which gives us a benchmark to plan actions for reduction.

Influence on Design – Where we have an input into the design process we aim to take sustainability issues into consideration wherever practical. We are benefiting from the input of our renewable energy business, particularly in designing ways of reducing the carbon footprint of other regeneration schemes being carried out by our housebuilding businesses, exemplified by the plans for our 780 home development at Graylingwell near Chichester to be net carbon neutral.

Our housebuilding business participated in the NextGeneration Sustainability Index. In 2008 we were ranked 15 in the industry and we aim to improve on this in the 2009 rankings.

Our commitment to improving the Group's knowledge on environmental issues continues with over 1,400 employees having now attended our in-house courses. In addition our 40 Health Safety and Environmental advisers, who regularly carry out site inspections, have all completed a 4 day IOSH-accredited environmental training course that we introduced during the year. We had four environmental improvement notices and one prosecution during the year, which was in relation to the use of a water standpipe.

"Further information on all our CR initiatives is in our 2009 Corporate Responsibility Report which is available at www.gallifordtry.co.uk"

Looking forward, our objectives are to increase the percentages of our waste that we divert from UK land fill sites, develop bespoke tools to allow more accurate measurement of our carbon footprint and set measurable targets for reducing our impact. We have continued to progress our objective for all business units to be certified to ISO 14001:2004. Progress has been slower than anticipated; however, 26 out of 39 business units have now achieved third party certification.

**Procurement and supply chain**

We believe that developing long term relationships with all who provide services to our business is crucial to our ability to provide our clients and customers with projects that deliver to the highest standard. Through early engagement and working in partnership with these providers, we can address key performance requirements for health, safety, environmental and other CR matters.

We have a monthly Group procurement forum with representation from each division and a newly appointed Group Procurement Manager. During the year part of our business was certified to both the FSC and PEFC standards for all timber supplies and we continued to implement our programme to improve office supplies sustainability with Group-wide 'Box4Life' deliveries.

**Communities**

Our priority is to make a positive impact, not only within the communities we operate but also in the communities we develop. Our work is driven by the regional businesses who have a greater understanding of community needs and know the most effective and appropriate channels to engage.

At a Group level, we gather information on community projects and disseminate examples of best practice across the Group to develop a consistent approach. Direct charity giving totalled £81,000 in the year, compared to £60,000 last year; however we have many other examples of contributions to charitable work within local communities. Examples can be found in the 2009 CR Report.

Our policy is based on four key principles of engagement:

> Contributing to the community through our core activities such as providing schools, healthcare facilities, affordable housing and transport infrastructure.
> Engaging with the communities and individuals in the areas in which we operate.
> Delivering wider community benefits such as local employment.
> Charitable investment.

Our policy is to ensure that our operations are integrated into the local community as effectively as possible. Practically, this means:

> Promoting safety on building sites through local campaigns, particularly targeted at schools.
> Keeping local residents and organisations informed about construction plans and progress.
> Involvement in education programmes and school visits.
> Participating in community work.
> Supporting local charities and events in which our employees are involved.

**Economic sustainability**

We recognise that to be sustainable in the long term we need to be a profitable business. However, our commitment is that this should not be at the expense of environmental and social issues and our plans aim to ensure this. Our full financial position is set out within this annual report.

**Stakeholder engagement**

We proactively engage with our key stakeholders. These are: local communities, employees, shareholders, customers, supply chain, regulators, national and local governments. We communicate regularly with our 3,850 employees on CR issues in a number of different ways: the intranet; monthly updates to the executive and divisional boards; workshops and presentations with employees; the CR steering committee; the Group email system; annual survey and the employee magazine *Evolve*.

**Shareholders**

Galliford Try is committed to helping its shareholders develop a clear understanding of the Company's strategy, performance and growth potential. We send all new shareholders a welcome letter with information about the Group, maintain a section of our website specifically for shareholders, make a detailed presentation on the business at the annual general meeting and aim to provide written communications that are clear, timely and relevant.

**Corporate Governance**

Galliford Try is firmly committed to attaining high standards of corporate governance and conducting the Group's operations in accordance with the best principles of corporate governance and the Turnbull Guidance. Throughout the year the Company complied with the provisions set out in Section 1 of the Combined Code of Corporate Governance as revised in 2008 (the "Code") and maintained by the Financial Reporting Council.

## FORWARD LOOKING STATEMENTS

The annual report has been prepared to assist shareholders to assess the board's strategies and their potential to succeed. It should not be relied on by any other party for other purposes. Forward looking statements have been made by the directors in good faith using information up until the date on which they approved this report. Forward looking statements should be regarded with caution due to the uncertainties in economic trends and business risks. The Group's businesses are generally not affected by seasonality.

# DIRECTORS AND
# EXECUTIVE BOARD









## DIRECTORS

**1 DAVID CALVERLEY** FCA
Non-Executive Chairman
David Calverley was appointed to the board in September 2000 as chief executive, a position he held until 30 June 2005. He was appointed as Non-Executive Chairman on 1 July 2005 and is also Non-Executive Chairman of Tricone Development Limited. Chief Executive of Try Group from 1995, he was formerly a director of Trafalgar House, Chairman of Ideal Homes and Managing Director of Trafalgar House Property. Age 67.

**2 GREG FITZGERALD**
Chief Executive
Greg Fitzgerald was appointed to the board in July 2003 and was Managing Director of the Housebuilding Division before being appointed Chief Executive on 1 July 2005. He was a founder of Midas Homes in 1992 and its Managing Director when it was acquired in 1997, subsequently chairing Midas and Gerald Wood Homes. Age 45.

**3 FRANK NELSON** FCMA
Finance Director
Frank Nelson was appointed to the board in September 2000. Finance Director of Try Group since 1988, he was formerly a divisional finance director with Wiltshier and a management consultant with Coopers & Lybrand. Age 58.

**4 AMANDA BURTON** † ‡
Non-Executive Director and Senior Independent Director
Amanda Burton was appointed to the board in July 2005. She is currently Director of Global Business Services at Clifford Chance LLP and a Non-Executive Director of Fresca Group Limited. She was previously a director of Meyer International plc and Chairman of its timber group. Age 50.

**5 PETER ROGERS** † ‡
Non-Executive Director
Peter Rogers was appointed to the board in July 2008. He is currently Chief Executive of Babcock International Group plc. Prior to joining Babcock in 2002, he was a director of Courtaulds plc and Acordis BV, having earlier held senior executive positions in the Ford Motor Company. Age 61.

**6 ANDREW JENNER** ACA † ‡
Non-Executive Director
Andrew Jenner was appointed to the board in January 2009. He is currently Finance Director of Serco Group plc. Prior to joining Serco in 1996 he worked for Unilever and Deloitte & Touche LLP. Age 40.

## EXECUTIVE BOARD*

**7 KEN GILLESPIE** BSc
Group Managing Director, Construction
Ken Gillespie joined the Group in March 2006 on the acquisition of Morrison Construction, having been its Managing Director since 2005. He joined Morrison in 1996 having spent the previous 13 years holding senior positions in construction with George Wimpey. Age 44.

**8 RICHARD BARRACLOUGH** FCIS
Company Secretary and Legal Director
Richard Barraclough has been Company Secretary since September 2000. He joined Try Group as a director and company secretary in 1991 and was formerly deputy company secretary of George Wimpey PLC. Age 54.

**9 IAN BAKER**
Group Managing Director, Housebuilding
Ian Baker was appointed to the executive board in March 2007. He joined the Group in 1995, initially with Midas Homes, subsequently becoming Managing Director of the Midlands, South and South West division in 2007 and of all the Group's housebuilding activities in 2009. Age 39.

*The executive board comprises the chief executive, finance director and the executives listed.

†Member of the audit committee

‡Member of the remuneration and nomination committees

# DIRECTORS' REPORT

The directors have pleasure in presenting their Annual Report and the audited financial statements of the Group for the year ended 30 June 2009.

**Principal activities**
Galliford Try is a housebuilding and construction group. Further details of the Group's activities during the year under review and of its prospects are contained in pages 4 to 29. The principal subsidiary companies operating within the Group are shown on page 100.

**Business review and future developments**
Company law requires the directors to produce a business review that sets out a fair review of the business of the Group during the year ended 30 June 2009 including a description of the principal risks and uncertainties facing the Group, a review of financial and non-financial key performance indicators and a fair analysis of the development and performance of the Group's business during the financial year.

The directors consider that this requirement is fulfilled by the inclusion in this Annual Report and Financial Statements of a Business Review, Corporate Governance Report and Remuneration Report. Information on the Group's employment practices, including its policies on equal opportunities for disabled employees and employee involvement, and its approach to environmental matters is set out in the corporate responsibility section of the business review on pages 26 to 29.

**Results and dividends**
The post-exceptional loss for the year after tax of £17.8 million is shown in the consolidated income statement on page 47. The directors recommend a final dividend of 1.05 pence per share be paid, which together with the interim dividend of 0.45 pence results in a total dividend for the year of 1.5 pence, which will absorb a total of £4.0 million of shareholders' funds. The final dividend will be payable on 13 November 2009, to shareholders on the register at 18 September 2009.

**Share capital**
The Company has a single class of share capital which is divided into ordinary shares of 5 pence each. Except in relation to some of the Group's share plans that include restrictions on the transfer of shares whilst the shares are subject to the plan, there are no restrictions on the transfer or voting rights of the Company's share capital.

Resolutions to be proposed at the 2009 Annual General Meeting will renew the limited authority of the directors to allot the unissued share capital of the Company and to issue shares for cash other than to existing shareholders.

A resolution will also be proposed to renew the directors' authority to make market purchases of its shares within prescribed limits. No such purchases were made in the year to 30 June 2009.

Further explanation of the resolutions is included with the notice of the meeting circulated to shareholders with this report.

As at the date of this report 377,766,773 ordinary shares of 5 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange. During the year ended 30 June 2009 options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 162,331 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. 1.15 per cent of the issued share capital of the Company is currently held within the Galliford Try Employee Share Trust for the use in satisfying employee share options or share awards.

**Change of control provisions**
The Group has entered into certain agreements that may alter on a change of control of the Group. The significant agreements are the Group's banking and surety agreements, details of which are included under financing in the Business Review and under contingent liabilities in note 34 on page 85.

All of the Group's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at the time.

No compensation would be paid for loss of office of directors on a change of control of the Company.

**Articles of association**
The articles of association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of directors and the conduct of the board and general meetings. In accordance with the articles of association, directors can be appointed or removed by the board or shareholders in general meeting. The articles of association may only be amended by special resolution at a general meeting of shareholders. Copies are available by writing to the Company Secretary.

**Directors and their interests**
The board of directors at the date of this report is shown on page 31. Chris Bucknall retired from the board on 7 November 2008 and Jonathan Dawson retired on 31 December 2008. Peter Rogers was appointed to the board as a non-executive director on 1 July 2008 and was elected at the AGM in November 2008. Andrew Jenner was appointed to the board as a non-executive director on 1 January 2009. He will retire at the 2009 Annual General Meeting and offer himself for election. Under the Articles of Association each director is subject to re-election at intervals of not more than three years. As all other directors were either appointed or re-appointed in the last two years, there are no directors standing for re-election.

The biographies of all of the Company's directors are on page 31.

The interests of the directors in the share capital of the Company and details of their service contracts are set out in the Directors' Remuneration Report on pages 40 to 44.

A son of Frank Nelson, a director of the Company, proposes to purchase a property for his own residential use that is being developed and sold by a subsidiary of the Company, Linden Limited. A resolution to approve the proposed transaction will be proposed at the forthcoming Annual General Meeting. Further explanation of the resolution is included with the Notice of Meeting.

The Company takes out directors and officers' insurance cover in respect of legal actions brought against its directors. The Company's practice is to indemnify its directors in accordance with the articles of association and to the maximum extent permitted by law. Neither insurance nor indemnities cover fraud or dishonesty.

Substantial shareholdings

As at 10 September 2009, being the date of this report, the following notifiable holdings of voting rights attaching to the Company's shares had been notified to the Company in accordance with the Disclosure and Transparency Rules.

| | No. of shares | % |
|---|---|---|
| Standard Life Investments Ltd | 34,201,717 | 9.1 |
| Aberforth Partners LLP | 22,318,700 | 5.9 |
| AXA S.A. | 18,134,125 | 4.8 |
| JP Morgan Chase & Co | 17,873,676 | 4.7 |
| Lloyds TSB Group plc | 15,019,333 | 4.0 |
| Legal & General Group | 14,970,734 | 4.0 |

**Directors' duty to avoid conflicts of interest**

The Company operates a formal ongoing procedure for the disclosure, review and authorisation of directors' actual and potential conflicts of interest in accordance with the provisions of the Companies Act 2006. In addition, conflicts of interest are reviewed on an annual basis by the board and the first annual assessment of directors existing or potential conflicts was carried out by the board in October 2008.

**Charitable and political contributions**

Contributions for charitable purposes during the year amounted to £81,000 (2008: £60,000). Charities that benefited included those carrying out potential projects to assist homeless people, these providing benefit to workers in our industry who are in need and a significant number of small local charities in the areas within which we operate. It is not the Company's policy to make political donations and none were made during the year.

**Creditors' payment policy**

The Group's policy concerning creditors is to agree payment terms with its suppliers, ensure the relevant terms of payment are included in contracts and to abide by those terms when it is satisfied that goods or services have been provided in accordance with the contracts. Galliford Try plc as a holding company, did not have any amounts owing to trade creditors as at 30 June 2009 (2008: Nil). Trade creditors for the Group represented 26 days (2008: 28 days) of average daily purchases.

**Annual General Meeting**

The Annual General Meeting will be held at the offices of Royal Bank of Scotland, 3rd Floor Conference Centre, 250 Bishopsgate, London EC2M 4AA on 6 November 2009 at 11 a.m.

**Auditors**

PricewaterhouseCoopers LLP have confirmed their willingness to continue in office as auditors of the Company and a resolution for their re-appointment and for the audit committee to determine their remuneration will be proposed at the Annual General Meeting.

**Audit information**

So far as the directors in office at the date of the signing of the report are aware, there is no relevant audit information of which the Company's auditors are unaware and each such director has taken all steps that he or she ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Important events since the year end**

On 10 September 2009 the Company announced a rights issue to raise approximately £119 million, net of expenses, to recommence the expansion of its housebuilding business.

There have been no other important events affecting the Company or any of its subsidiaries since 30 June 2009.

**Going concern**

The directors are required under the Combined Code on Corporate Governance to have satisfied themselves as to the Group's ability to continue in existence for the foreseeable future. This has been carried out and the directors have concluded that the Group has adequate resources and is justified in using the going concern basis in preparing the financial statements.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent company 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

  The directors confirm that they have complied with the above requirements in preparing the financial statements.

  Each of the directors (whose names and functions are set out on page 31 confirms that to the best of his and her knowledge:

- the Group financial statements, set out on pages 46 to 86, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit/loss of the Group as taken as a whole; and
- the Business Review contained in pages 6 to 29 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the International Accountancy Standards Regulation and the parent company financial statements and the Directors' Remuneration Report 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

**Richard Barraclough**
Company Secretary
10 September 2009

# CORPORATE GOVERNANCE

**Compliance statement**
Galliford Try is firmly committed to attaining high standards of corporate governance and conducting the Group's operations in accordance with the best principles of corporate governance. Throughout the year the Company complied with the provisions set out in section 1 of the 2008 Combined Code of Corporate Governance (the "Code") as maintained by the Financial Reporting Council.

This statement, together with the Remuneration Report on page 40, describes how the Company has complied with the code provisions and has applied the main and supporting principles set out in the Code throughout the year.

**The board and its directors**
The Company is led by a board which currently consists of a non-executive chairman, two executive directors and three other non-executive directors (including a senior independent director). Peter Rogers was appointed a non-executive director on 1 July 2008 and Andrew Jenner was appointed as a non-executive director on 1 January 2009. Both appointments were made following a recommendation from the nomination committee. Chris Bucknall retired as deputy chairman and senior independent director on 7 November 2008. Amanda Burton became senior independent director on the same day. Jonathan Dawson retired as a non-executive director on 31 December 2008.

Biographical details of all of the directors, together with details of board committee memberships, are set out on page 31.

Each of the non-executive directors is considered by the board to be independent, with the exception of the chairman, David Calverley, who did not meet the independence criteria set out in the Code on his appointment in 2005, having previously been the chief executive of the Company. There have been no changes to his external commitments since then which may affect his responsibilities to the Company. Amanda Burton is the senior independent director who is an additional point of contact for shareholders. The board's structure during the year with half of the Company's directors being independent non-executives, met the requirements of the Code.

Any director appointed during the year is required, under the provisions of the Company's Articles of Association to retire and seek re-appointment by shareholders at the next Annual General Meeting. Andrew Jenner will stand for election at the forthcoming Annual General Meeting. Both the Articles and the Code require each director to be subject to re-election at intervals of not more than three years. As all directors, with the exception of Andrew Jenner, were either appointed or re-appointed in the last two years, there are no directors standing for re-election at the forthcoming Annual General Meeting.

A detailed description of the role and responsibilities of a non-executive director is set out in the letter of appointment, and all new non-executive directors confirm before they take up their appointment that they can allocate sufficient time to meet the expectations of the role. The service contracts of the non-executive directors are available for inspection at the Company's registered office during normal office hours and at the Annual General Meeting.

The roles of the chairman and chief executive are separate. The chairman is responsible for the leadership and management of the board and ensuring that it operates effectively, and the chief executive is responsible to the board for the executive management of the Group. The chairman and the chief executive meet regularly to discuss the business and issues for the board.

The board meets regularly during the year. Further details of the attendance of directors at board and committee meetings are provided on page 37. The chairman has held meetings with non-executive directors, and the Company Secretary also attended part of these meetings by invitation. There is a formal schedule of matters reserved for decision by the board. The board agrees the Group's business plan, determines overall Group strategy, acquisitions, investment, human resources, environmental and health and safety policies, and is responsible for the approval of major items of capital expenditure, significant financial matters, and reviewing the Group's system of internal control. All directors receive appropriate and timely information and briefing papers in advance of the board meetings. All directors have access to the advice and services of the Company Secretary. There is an agreed procedure for directors to take independent professional advice, if necessary, at the Company's expense in furtherance of their duties. The Company has a directors and officers liability insurance policy in place.

Each member of the board brings different experience and skills to the operation of the board and its committees. The board composition is kept under review and when a new appointment is to be made, appropriate consideration is given to the specific skills and experience which a potential new member could add. Newly appointed directors receive formal induction and appropriate training on the role and responsibilities of being a director of a public listed company as soon as practicable after appointment. The induction for non-executive directors includes meetings with senior management of the business and visits to the Company's operations. Specific programmes were agreed and implemented with the two new non-executive directors appointed during the year.

Every director participated in an evaluation of their individual performance during the year using a self-assessment questionnaire with rating scales followed by an appraisal interview. The process also enables appropriate training and development needs to be planned. The process in 2009 reinforced the importance of ensuring that the newly appointed chairmen of the board's audit, remuneration and nomination committees received adequate support and updates by attending relevant courses and seminars to keep abreast of developments. The senior independent director chaired the meeting in the absence of the chairman at which his annual performance was evaluated and on other such occasions as were deemed appropriate.

The Company's Articles of Association were amended at the Annual General Meeting in November 2008 to, amongst other matters, address the new statutory provisions regarding directors' duties in relation to conflicts of interest which came into force on 1 October 2008 under the Companies Act 2006 (the 'Act'). The board may now, provided the quorum and voting requirements are satisfied, authorise any matter that would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest. Any director may propose that the director concerned be authorised in relation to any matter which is the subject of such a conflict and such a proposal shall be put to the board in the same way as any other matter, except that the director who is subject to the conflict (or any other director with a similar interest) shall not count towards the quorum or vote on the resolution authorising the conflict. This forms a central part of the updated procedures that the Company has put into place to deal with conflicts of interest and these procedures have operated effectively throughout the year.

**The board and its committees**
A process of monitoring and evaluating the performance of the board and its committees and individual directors has been undertaken during the course of the year. As in previous years, members of the board completed a confidential questionnaire covering business and strategy, board effectiveness and management together with governance issues. The Company Secretary collated the results from the questionnaires and prepared a report on the findings for an initial discussion with the chairman. The findings were then discussed by the board, and a number of actions were agreed, including:

> Involving senior management of the Group in regular presentations to the board on their areas of business responsibility;
> Changes to the content of the regular reports made to the board; and
> Changes to the way in which the board determines its priorities in analysing risk management issues.

Specific responsibilities of the board have been delegated to the audit, remuneration and nomination committees; all of which have defined terms of reference, procedures, responsibilities and powers. Other directors may attend some of the committee meetings by invitation. The committees' terms of reference which are closely modelled on the provisions of the Code are available on the Group's website www.gallifordtry.co.uk.

The committees, their members and a report on their activities are given below:

Executive board – Chaired by the chief executive and comprising the finance director, the managing directors of construction and housebuilding and the company secretary, the executive board is responsible for the operational management of the Group and meets at least on a monthly basis.

Audit committee – The members are Amanda Burton, Peter Rogers and Andrew Jenner. Each of these non-executive directors is considered independent and served throughout the year, except Andrew Jenner, who was appointed to chair the audit committee on 1 January 2009 following the retirement of Jonathan Dawson. As a chartered accountant and finance director of Serco Group plc he has a strong finance background together with fulfilling the requirement to possess recent and relevant financial experience. Chris Bucknall was a member of the audit committee until he retired on 7 November 2008. The audit committee meets at least three times a year.

The audit committee maintains a formal calendar of items that are to be considered at each committee meeting and within the annual audit cycle to ensure that its work is line with the requirements of the Code.

The main responsibilities of the audit committee are to:

> Monitor the integrity of the annual and interim financial statements and any formal announcements relating to the Company's financial performance, paying particular attention to significant reporting judgements contained therein, including critical accounting policies and practices;
> Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
> Make recommendations to the board, for submission to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
> Monitor and review the effectiveness of the internal audit function;
> Maintain a policy on the engagement of the external auditors to supply non audit services; and
> Review arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters.

During the year, the audit committee discharged its responsibilities as set out in its terms of reference by undertaking the following work:

> Meeting prior to the board meeting at which the Annual Report and Financial Statements, and the Interim Report, were approved. In doing so, the audit committee reviewed significant accounting policies, financial reporting issues and judgements and reports from the external auditors;
> Reviewing the effectiveness of the external audit process, the external auditors strategy and plan for the audit, and the qualifications, expertise, resources and independence of the external auditors;
> Agreeing the terms of engagement and fee of the external auditors for the audit;
> Reviewing the policy on auditor independence and the provision of non-audit services by the external auditors;
> Receiving and considering regular reports on the findings and the follow up actions from management on internal audit reviews, and reviewing the annual plan, remit, organisation, coordination and resources of the internal audit function and how it interfaces with executive management and the external auditors;
> Reviewing the Annual Report disclosure items relevant to the audit committee including the revisions made by the Company to the Group's statement of accounting policies;

- > Reviewing the potential impact on the Group's financial statements of significant corporate governance and accounting matters;
- > Reviewing the findings of the external auditors, their management letters on accounting procedures and internal financial controls and audit representation letters;
- > Reviewing the accounting and financing arrangements with respect to the Group's joint venture arrangements;
- > Reviewing the Company's arrangements for testing the financial and non-financial covenants of the Group's banking facilities;
- > Reviewing the appropriateness of the Company's methodology used to assess the carrying value of Company's land and work-in-progress;
- > Meeting separately with the chief executive, finance director, the external auditors in the absence of any executives and the internal audit team;
- > Reviewing and amending the procedures under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters.

The audit committee operates a policy to safeguard the objectivity and independence of the external auditors. This policy sets out certain disclosure requirements by the external auditors to the audit committee, restrictions on the employment of the external auditors' former employees, partner rotation and procedures for the approval of non audit services by the external audit firm. The committee's policy is to review the necessity to consider whether to invite other firms to compete for the role with the incumbent firm at least as frequently as audit partner rotation is required. The Company's current auditors were originally appointed in 2001.

All significant non-audit services require approval of the audit committee before the external auditors can be appointed or, in respect of non-audit services that are ordinarily carried out by the external auditors, through subsequent ratification. The committee will not approve the use of the external auditors if a conflict of interest could arise that might impact their objectivity or independence.

A report is made to the audit committee setting out the non audit services provided by the external auditors during the year and the fees charged. Details of the amount paid to the external auditors are given in note 5 to the Group financial statements on page 59. Having undertaken a review of the non audit related services provided during the year, the committee is satisfied that they were not material and did not prejudice the external auditors' independence.

Remuneration committee – The members are Amanda Burton, Peter Rogers and Andrew Jenner. Each of these non-executive directors is considered independent. Amanda Burton, who served throughout the year, was appointed to chair the remuneration committee upon the retirement of Chris Bucknall on 7 November 2008. Peter Rogers and Andrew Jenner were appointed on 1 September 2008 and 1 January 2009 respectively. Jonathan Dawson served on the remuneration committee until he retired on 31 December 2008. The committee is responsible for deciding on all elements of executive directors' remuneration. It also monitors the remuneration levels of the Company's senior management. Further information on the role of the remuneration committee is included in the Directors' Remuneration Report on page 40.

Nomination committee – The members are Peter Rogers, Amanda Burton and Andrew Jenner. Each of these non-executive directors is considered independent and served throughout the year with the exception of Andrew Jenner who was appointed on 1 January 2009. Peter Rogers was appointed as chairman upon the retirement of Chris Bucknall on 7 November 2008. Jonathan Dawson served on the nomination committee until he retired on 31 December 2008. The committee's role is to consider the structure and composition of the board, to make recommendations for filling vacancies, and to consider the nature of the role and the capabilities required, taking external advice where appropriate. It ensures that appointments to the board are made on merit and against objective criteria. It also satisfies itself that, in terms of succession planning, the necessary processes are in place in respect of board and senior management appointments.

During the year, in anticipation of Jonathan Dawson's retirement from the board, the nomination committee conducted a recruitment process for a new non-executive director and chair of the audit committee. This entailed defining a job description, involving an external recruitment agency and conducting interviews.

The nomination committee also satisfies itself that, in terms of succession planning, the necessary processes are in place in respect of the board and senior management appointments. The process of reviewing and refreshing the board set in train last year has resulted in two new non-executive directors being appointed in the last year. Contingency planning to ensure continuity in terms of executive succession was undertaken. Part of this process involved ensuring that the development needs for potential candidates from within the Group were being planned and carried through.

The following table indicates the number of meetings of the board and each of its committees held during the year and the number of those meetings that each of the directors attended as a member:

| | Board | Audit committee | Remuneration committee | Nomination committee |
|---|---|---|---|---|
| Number of meetings held in the year | 10 | 3 | 8 | 2 |
| David Calverley | 10 | – | – | – |
| Greg Fitzgerald | 10 | – | – | – |
| Frank Nelson | 10 | – | – | – |
| Amanda Burton | 9 | 3 | 8 | 2 |
| Peter Rogers | 10 | 3 | 6 | 2 |
| Andrew Jenner | 4 | 2 | 3 | 1 |
| Chris Bucknall | 4 | 1 | 4 | – |
| Jonathan Dawson | 5 | 1 | 4 | – |

**Shareholder communications**

The Company places a high priority on maintaining good relationships with all its shareholders. The chief executive and the finance director regularly meet with all major shareholders. Any new non-executive appointments are referred to at such meetings. Feedback on such meetings and shareholder views generally are communicated to the board as a whole, and brokers' reports are routinely circulated to all members of the board. This ensures that the non-executive directors are aware of and are able to develop an understanding of the views held by major shareholders about the Company. The Chairman is available to discuss governance and strategy with major shareholders when required, and non-executive directors will also attend if requested to do so. The senior independent director is also available as an additional point of contact for shareholders. While the focus of dialogue is with the major institutional shareholders, care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time within the constraints of the UK Listing Authority guidelines. The Company Secretary oversees communications with private shareholders.

Every effort is made to ensure that annual general meetings are informative and meaningful occasions, and the full board, including the chairmen of the audit, remuneration and nomination committees, are available to answer questions. At the Annual General Meeting proxy votes are announced after the show of hands on each occasion. The Company has a comprehensive investor relations section within its website www.gallifordtry.co.uk to provide shareholders with all relevant information, including institutional presentation documents and webcasts, annual and interim reports and financial statements and frequently asked shareholder questions, in an effort to ensure that they are well informed about the Company. The investor relations home page has also been reviewed and changed in order to make it easier to navigate and to improve access to key investor information.

**Accountability and audit**

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects which is covered in the statement and reviews on pages 6 to 29.

The board has an audit committee as described above. The work undertaken by the audit committee on behalf of the board in reviewing the published statements, supported by the external auditors, allows the directors to make their responsibility statement on page 33 and the going concern statement on page 33.

**Internal control and risk management**

The board has reviewed in detail the major areas of risk that the Group faces in its business and operations and the management controls and processes that are in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against misstatement or loss. A high-level register is maintained which is reviewed and updated annually. This comprises risks specific to the divisional activities of the business, as well as environmental, social, governance, financial and human resources risks. During the year it was revised to recognise the planned growth of the Group's overseas activities.

The Group operates under an established internal control framework which applies to all its operations including its involvement in all material joint ventures.

Organisational structure – The Group is organised into a number of divisions, under which there are clearly defined business units. Each division has its own management board and each business unit is run by a managing director and board. Clear reporting lines and delegated authorities are in place. Accordingly, the management of performance and monitoring and reporting of risk occurs at different levels within the Group with key issues being escalated through management to the board.

Contractual commitments – There are clearly defined policies and procedures for entering into contractual commitments that are in place throughout the relevant business units. These include detailed requirements that are required to be completed prior to submitting proposals and/or tenders for construction work both in respect of the commercial, control and risk management aspects of the obligations being entered into.

Investment in land and development – There are clearly defined policies and procedures for the purchase of land and for expenditure on development opportunities. These include detailed pre-commitment due diligence procedures together with detailed appraisal and review requirements that have to be complied with and are subject to rigorous review and authorisation.

Operational activity – There are established frameworks managing and controlling all site operations that take account of the specific requirements of the type of site that is being operated. This includes extensive health, safety and environmental procedures, regular performance monitoring and accountability to clients or customers as relevant.

Operational and financial reporting – The Group updates its business plan on an annual basis, and prepares a detailed annual budget for each financial year that is considered and approved by the board. A rigorous profit and cash reporting and forecasting regime is in place across the Group with reports prepared and reviewed on a monthly basis. The performance of each business is reviewed monthly by divisional and Group management and subsequently reported to the board against both budget and forecast. As well as the emphasis placed on cash flow, income and balance sheet reporting, health, safety and environmental matters form part of the key operating issues included within the monthly reports.

Internal audit – The Company's internal audit function is responsible for ensuring that all Group financial controls, as laid down in the corporate, finance and IT control manuals are operating effectively. It reports to the audit committee on its findings.

Whistleblowing policy – The Company's whistleblowing policy, which puts in place a confidential channel of communication for employees to bring matters of concern, whether operational or personal, to the attention of senior management, to enable the Company to investigate fully and take whatever corrective action is deemed to be appropriate. The audit committee has responsibility for reviewing these arrangements and during the year a revised version of the policy was approved. It also has responsibility for ensuring independent investigation of such matters and appropriate follow-up action where necessary.

Competition policy – The Group has a comprehensive set of policies and procedures for ensuring compliance with competition law requirements, including training for relevant employees and a regular senior management certification process.

As part of its investigations into anti competitive practices in the construction industry, The Office of Fair Trading (OFT) issued a Statement of Objections to the Company in April 2008 alleging breaches of the 1998 Competition Act in respect of cover prices being given or taken in the Group's building division on three tenders for building work during the period from 2000 to 2004. The Company submitted formal representations on the Statement of Objections and is awaiting the OFT's decision which is expected in autumn 2009. If the Group is found to have infringed competition law it may be liable to a fine, which is currently unquantifiable. An appropriate note to this effect is included in note 34 to the financial statements on contingent liabilities.

Annual review – The board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2009. They have been in place during the period under review up to the date of the approval of the Annual Report and Financial Statements.

**Richard Barraclough**
Company Secretary
10 September 2009

# REMUNERATION REPORT

This report has been prepared in accordance with The Directors' Remuneration Report Regulations 2002, (the "Regulations"). The auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The report is therefore divided into separate sections for audited and unaudited information. The board has reviewed the Group's compliance with the 2008 Combined Code (the "Code") on remuneration related matters. It is the opinion of the board that the Group complied with all remuneration related aspects of the Code during the year.

## PART ONE: UNAUDITED INFORMATION

**The remuneration committee**

The remuneration committee ('the committee') is governed by formal terms of reference agreed by the board and is composed entirely of non executive directors, whom the board considers are independent. Chris Bucknall chaired the committee until he retired from the Board on 7 November 2008 and Jonathan Dawson was a member until he retired on 31 December 2008. Amanda Burton took over as Chair of the committee on 7 November 2008. Peter Rogers joined the committee on 1 September 2008 and Andrew Jenner joined the committee on 1 January 2009. The Chairman, Chief Executive and Company Secretary are invited to attend meetings of the committee, although no executive is present when their own remuneration is being considered.

The committee recommends to the board the framework for remuneration to attract and retain its executive directors and it determines the specific remuneration packages of executive directors. It also determines the remuneration packages of members of the Company's executive board and monitors and makes recommendations on remuneration for the level of senior management below the members of the executive board. To ensure executive remuneration is considered in the context of the Group as a whole, the committee reviews policy on the pay and benefit structure, including bonus schemes, for all employees in the Group. The committee keeps itself fully informed of developments and best practice in the field of remuneration and obtains advice from independent external consultants when required on individual remuneration packages and on executive remuneration practices in general. Independent consultants MM&K Limited have advised the committee on directors' remuneration matters during the year. Independent legal advice may be sought by the committee as and when required. The committee is supported by the Company Secretary.

**Remuneration policy**

During the year, the committee operated in accordance with the following remuneration policy:

> Remuneration packages must attract, retain and motivate the executives required to achieve the Company's strategic objectives.
> The Group is committed to engendering a performance culture which will position Galliford Try as an employer of choice while delivering increased shareholder value.
> A significant proportion of an executive director's total remuneration should be delivered through performance-related pay.
> Performance-related pay should deliver upper quartile pay only if outstanding performance is achieved.

The committee continues to ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance risk by inadvertently motivating irresponsible behaviour. There are no restrictions on the committee which prevent it from taking into account such matters generally when determining remuneration issues. It has also determined that if any unforeseen issues arise, particularly in the context of the Group's bonus and incentive schemes, that would make an outcome unjustifiable, it will use its discretion under the rules of the respective schemes to correct the position.

The committee's objective is for performance related pay for target performance to account for two thirds of a directors remuneration (excluding pension contributions). For the year ended 30 June 2009, performance related pay represented 15 per cent of each of the executive director's total remuneration.

**Basic salary and benefits**

Executive directors' basic salaries were last increased on 1 July 2007. In the light of the economic climate and in particular the downturn in the housebuilding sector, there were no increases to executive directors' basic salaries at the July 2008 annual review and the executive board members agreed to reduce their basic salaries by 3 per cent from 1 January 2009, increasing the reduction to 5 per cent from 1 July 2009. These decisions were taken against a backdrop in the Group whereby the housebuilding business operated a 4 day week from January to June 2009, with staff returning to full time working from July 2009 at a 3 per cent basic salary reduction. There was no salary increase for employees across the construction businesses at the July 2009 review, with senior management in construction agreeing reductions of up to 5 per cent.

Benefits for the executive directors comprise the provision of a fully expensed company car together with life and health insurance.

**Annual bonus scheme**

The annual bonus scheme enables executive directors to earn a maximum annual bonus of 100 per cent of their basic salary dependent on stretching financial targets that have been set by the committee being achieved. Under the scheme, the committee establishes a target for Group profit each year. No bonus is paid unless a threshhold of circa 90 per cent of the target is achieved increasing on a scale to a maximum that is set as a challenging uplift to the target. Cash targets are based on the achievement of regular net debt/cash positions throughout the year. Overall, circa 40 per cent of basic salary is paid for achieving target performance. Two thirds of any amount earned in excess of 50 per cent of an individual's basic salary will be received in restricted shares that will be forfeit if the recipient's employment has terminated before the end of a further three years, unless agreed otherwise by the committee.

The Group did not achieve its profit targets for the financial year and no bonus in respect of profit was therefore earned by the executive directors. However, it did meet its cash management targets, and the annual bonus payable to the executive directors was 15 per cent of basic salary.

Reward and incentive strategies to align employees' interest to the Group's objectives are in place throughout the Group, and form a crucial part of our overall employee engagement strategy. We aim to provide a benefits package that is attractive in the industries within which we work, and performance related incentives where these can contribute to our objectives. All staff throughout the Group participate in an annual bonus scheme, with targets linked to the performance of their particular responsibilities or business unit. The scope and extent of these schemes varies between levels of management and business sector. The committee monitors the operation of these schemes to ensure fairness and compatibility with executive remuneration. All bonus schemes throughout the Group are subject to a 50 per cent reduction in payment if Group profit before tax does not meet a predetermined threshold, regardless of the performance of the individual business unit. This rule was triggered and implemented in the year to 30 June 2009.

The group has a long term bonus plan, approved by shareholders in 2005, under which senior executives may be awarded a limited fixed amount subject to achieving three year performance targets, and payable as to two thirds in cash and one third in shares restricted for a further year. The Company's employee benefit trust currently holds 203,638 shares for each of the executive directors that are in the restricted period following the end of the first performance period on 30 June 2008. The executive directors do not now participate in the plan.

**Long term incentive plan**
The one remaining award under the 1997 Galliford Try performance related share incentive scheme, the Galliford Try Restricted Share Plan (the 'Plan') matured in September 2008 when 24.1 per cent of the original award vested.

Under the 2006 long term incentive plan, the committee may make an award annually. The maximum value of an award that may be granted in any financial year to any individual shall not exceed 100 per cent of his basic annual salary at the award date. The value of awards made is calculated on the average closing mid market price of the Company's shares for the 30 days prior to the date of grant. The vesting of an award depends on the achievement of performance conditions applied to that award over a three year plan cycle. In the event of a change in control, awards may vest pro rata to the time elapsed subject to the performance conditions being satisfied to the date of change of control.

Awards made in 2006, 2007 and 2008 – In respect of awards made in these financial years there is a performance underpin that requires the Company to achieve a compound growth in earnings per share of at least the retail price index plus 2 per cent per annum over a plan cycle. If the earnings per share performance condition has been met, the performance of the Company is then measured by reference to a peer group of comparable companies in the Construction and Housebuilding sectors.

If the Company's total shareholder return equals the 75th percentile over the three year plan cycle the awards will vest at 100 per cent. If the Company's performance fails to achieve at least the 51st percentile the awards will not vest and shall lapse in their entirety. 30 per cent of the awards shall vest if the 51st percentile is achieved, rising on a straight line scale to the 75th percentile. On the achievement of exceptional performance that places the Company above the 75th percentile, an additional element of vesting will occur. The Company will also need to achieve a more demanding level of earnings per share growth which shall be to exceed the growth in the retail price index plus 5 per cent per annum compound. If this is achieved and the total shareholder return performance of the Company places it at first position in the peer group, then the level of vesting shall increase to 200 per cent of the original award. For performance between the 75th percentile and the top position, vesting will be on a straight line sliding scale between 100 per cent and 200 per cent.

The awards made in 2006 have not met the earnings per share underpin to 30 June 2009 and will therefore lapse.

Awards made in 2009 – At the 2008 annual general meeting shareholders approved an amendment to the rules of the Long Term Incentive Plan that gave the committee flexibility to amend future performance targets, and that awards made in the financial year ended 30 June 2009 could therefore take account of the changed economic situation as outlined in last year's report. Consequently, the awards issued under the plan on 10 March 2009 had the following performance targets:

1. The total shareholder return target as outlined above remained unchanged.

2. The performance underpin was set in two parts so as demonstrate the achievement of stretching performance over the plan cycle as follows:

   i. An absolute share price target equivalent to 10% per annum compound growth from the commencement of the performance period on 1 July 2008 to its ending on 30 June 2011; and
   ii The achievement of cash management targets at the end of each quarter starting at the end of the month that the award was made and ending at 30 June 2011. At each measurement date, points will be awarded dependent on the extent to which cash performance exceeds a target with points deducted if the target is missed. If actual cash fails to meet a predetermined minimum at any time between the measurement points, the underpin fails in its entirety.

3. The maximum vesting under the award was reduced from 200 per cent to 150 per cent of the initial award value, with any vesting over 100 per cent requiring significantly more challenging cash targets to be achieved.

The Committee intends to revert to the previous performance targets for future awards. The comparator companies used for the total shareholder return comparison for the 2009 award were:

Balfour Beatty plc
Barratt Developments plc
Bellway plc
The Berkeley Group Holdings plc
Henry Boot plc
Bovis Homes Group plc
Carillion plc
T Clarke plc
Costain Group plc
M J Gleeson plc
Kier Group plc
Morgan Sindall plc
Persimmon plc
Redrow plc
ROK plc
Taylor Wimpey plc

**Share retention policy**
The Company operates a share retention policy that requires executive directors to build up a holding of shares in the Company over a five year period equivalent in value to 1 x basic salary or 1.5 x basic salary in the case of the chief executive. As at 30 June 2009, the executive directors met this requirement.

**Save as you earn scheme**
The Company operates an HM Revenue and Customs approved savings related share option scheme for the benefit of all employees including executive directors, whereby employees make regular savings with a building society with an option to buy shares in Galliford Try plc at the end of a three or five year savings period at a discount of up to 20 per cent of the market value when they started saving. There are no performance conditions attached to saving related options.

**Pensions**
The executive directors receive a salary supplement of 20% of basic salary (calculated prior to the 2009 salary reductions) for pension purposes.

Greg Fitzgerald is entitled to deferred benefits under the Galliford Try Final Salary Pension Scheme ('the Scheme') which provided defined benefits based on service up until, and final pensionable salary to, its closure to future service accrual on 31 March 2007. Greg Fitzgerald's accumulated total accrued pension at 30 June 2009 was £258,697, an increase of £49,183 on the transfer value at 30 June 2008 which was £209,514. Frank Nelson transferred all his benefits out of the Scheme during the year and is no longer a Scheme member.

The transfer values stated above are calculated in accordance with version 8.1 of guidance note GN11 adopted by the board of actuarial standards. The increase in the GN11 transfer values includes the effect of fluctuations due to factors beyond the control of the Company. The GN11 transfer value of the increase in accrued pensions is nil and there was no increase in the accrued pension (excluding inflation) for the year ended 30 June 2009 as the scheme is closed to future service accrual.

**Non-executive directors**
Non-executive directors are appointed for an initial period of three years after which their appointment is subject to review at least every three years. There is a maximum period of six months notice for early termination. A committee comprising the executive directors and Company Secretary is responsible for taking appropriate independent advice from remuneration consultants to determine non executive directors' remuneration.

No increases in non-executive director's fees were made on 1 July 2008 and, in line with the executive directors, the non-executive directors agreed to reduce their fees by 3 per cent from 1 January 2009 increasing the reduction to 5 per cent from 1 July 2009.

**External appointments**
With the approval of the board in each case, executive directors may normally accept an external appointment as a non executive director of another company and retain any fees received. No such appointments were held by executive directors during the year.

**Performance**
The Group's total shareholder return performance (share price movements plus dividends reinvested) over the last five financial years relative to the FTSE All Share index based on a 30 trading day average values is shown below. The Company is a member of the FTSE Small Cap index but as there is no appropriate sector index that includes both construction and housebuilding companies the Group believes that the All Share index would be the most appropriate comparator as it encompasses all of its key competitors, as well as the full cross section of other companies.

**Table 1: Directors' interests**

The directors at 30 June 2009 held the following beneficial interests in the ordinary shares of the Company:

| | at 01.07.08 | at 30.06.09 |
|---|---|---|
| David Calverley | 1,656,250 | 1,656,250 |
| Greg Fitzgerald | 3,148,317* | 3,148,317*# |
| Frank Nelson | 1,002,261 | 1,002,261# |
| Amanda Burton | 82,559 | 82,559 |
| Peter Rogers | –+ | 125,000 |
| Andrew Jenner | –+ | 62,000 |

+ At date of appointment

* Greg Fitzgerald also has a beneficial interest in 3,136,763 shares held by Crownway Builders Limited, a company in which he owns 37.5% of its issued share capital.

# Greg Fitzgerald and Frank Nelson also have a beneficial interest in 203,638 shares each held by the Company's Employee Benefit Trust which, subject to satisfying an employment condition, will vest on 10 March 2010.

There were no changes in the directors' interests from 30 June 2009 to 10 September 2009.

**Table 2: Directors' service contracts**

| Name | Contract date | Notice – months |
|---|---|---|
| Non-executive directors | | |
| David Calverley | 1 July 2005 | 6 |
| Amanda Burton | 1 July 2005 | 6 |
| Peter Rogers | 1 July 2008 | 6 |
| Andrew Jenner | 1 January 2009 | 6 |
| Executive directors | | |
| Greg Fitzgerald | 1 July 2003 | 12 |
| Frank Nelson | 15 September 2000 | 12 |

1 Contract dates shown are the director's initial contract as an executive director or non-executive director of the Company. Executive directors have a rolling notice period as stated. Non-executives are initially appointed for a period of three years, subject to a rolling period which continues thereafter as stated.

2 There are no provisions for compensation payments on termination in any contracts. The committee will seek to mitigate in appropriate circumstances.

## PART TWO: AUDITED INFORMATION

**Table 3: Directors' remuneration**

| Name | Salary and fees £000 | Annual bonus £000 | Benefits £00 | Pension £000 | Total 2009 £000 | Total 2008 £000 |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| Greg Fitzgerald | 468 | 71 | 27 | 95 | 661 | 924 |
| Frank Nelson | 307 | 47 | 29 | 62 | 445 | 698 |
| Non-executive directors | | | | | | |
| David Calverley | 103 | – | 1 | – | 104 | 106 |
| Amanda Burton | 38 | – | – | – | 38 | 33 |
| Peter Rogers | 35 | – | – | – | 35 | – |
| Andrew Jenner | 19 | – | – | – | 19 | – |
| Former Directors | | | | | | |
| Chris Bucknall | 18 | – | – | – | 18 | 44 |
| Jonathan Dawson | 20 | – | – | – | 20 | 40 |
| | 1,008 | 118 | 57 | 157 | 1,340 | 1,845 |

The salary supplement paid to the directors for pension purposes is shown under "Pension".
Total 2008 remuneration for the executive directors includes a long term bonus plan vesting which covered the three years to 30 June 2008. The plan no longer applies to directors.

**Table 4: Directors' interests in long term incentive plans**

| Name | Award date | Market price at award date p. | Number of shares at 01.07.08 | Shares awarded | Shares vested | Shares lapsed | Number of shares at 30.06.09 | Value vested £ | Vesting date |
|---|---|---|---|---|---|---|---|---|---|
| Greg Fitzgerald | 13.09.05 | 71.0 | 290,000 | – | 69,890 | 220,110 | – | 46,127 | 12.09.08 |
| | 30.10.06 | 131.75 | 297,600 | – | – | – | 297,600 | – | 30.10.09 |
| | 10.09.07 | 146.5 | 328,700 | – | – | – | 328,700 | – | 10.09.10 |
| | 10.03.09 | 34.0 | – | 1,247,334 | – | – | 1,247,334 | – | 10.03.12 |
| Total | | | 916,300 | 1,247,334 | 69,890 | 220,110 | 1,873,634 | 46,127 | |
| Frank Nelson | 13.09.05 | 71.0 | 232,000 | – | 55,912 | 176,088 | – | 36,902 | 12.09.08 |
| | 30.10.06 | 131.75 | 206,300 | – | – | – | 206,300 | – | 30.10.09 |
| | 10.09.07 | 146.5 | 215,900 | – | – | – | 215,900 | – | 10.09.10 |
| | 10.03.09 | 34.0 | – | 819,301 | – | – | 819,301 | – | 10.03.12 |
| Total | | | 654,200 | 819,301 | 55,912 | 176,088 | 1,241,501 | 36,902 | |

Awards granted on 30 October 2006 and later were under the Galliford Try 2006 Long Term Incentive Plan. The award granted on 13.09.05 was under the Galliford Try Restricted Share Plan. Details are on page 41. Value vested represents the gain made on vesting.

The market price of the Company's shares at 30 June 2009 was 48.25 pence and the range of market prices during the year was between 27.50 pence and 67.0 pence. The market price on the vesting date of 08.09.08 was 66.0 pence.

**Table 5: Directors' interests in SAYE share option scheme**

| | Date of grant | At 01.07.08 | Granted in year | Exercised in year | Lapsed in Year | At 30.06.09 | Exercisable from | Exercisable to | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| Greg Fitzgerald | 20.12.05 | 12,284 | – | – | – | 12,284* | 01.02.09 | 31.07.09 | 68.5p |
| Total | | 12,284 | – | – | – | 12,284 | | | |
| Frank Nelson | 20.12.05 | 3,760 | – | – | – | 3,760 | 01.02.11 | 31.07.11 | 68.5p |
| | 09.11.06 | 6,225 | – | – | – | 6,225 | 01.01.10 | 30.06.10 | 102.0p |
| | 02.11.07 | 1,097 | – | – | – | 1,097 | 01.01.11 | 30.06.11 | 126.0p |
| Total | | 11,082 | – | – | – | 11,082 | | | |

1. Details of the Scheme are given in the Remuneration Report on page 42.
* Following the year end, on 1 August 2009, awards granted on 20.12.05 lapsed.

**Amanda Burton**
Chair, Remuneration Committee
10 September 2009

# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBERS OF GALLIFORD TRY PLC

We have audited the Group financial statements of Galliford Try plc for the year ended 30 June 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 33, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

**Opinion on financial statements**
In our opinion the Group financial statements:

> give a true and fair view of the state of the Group's affairs as at 30 June 2009 and of its loss and cash flows for the year then ended;
> have been properly prepared in accordance with IFRSs as adopted by the European Union; and
> have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
> the information given in the Statement on Corporate Governance with respect to Rules 7.2.5 and 7.2.6 of the Disclosure and Transparency Rules issued by the Financial Services Authority is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the directors' statement, set out on page 33 in relation to going concern; and
> the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**Other matter**
We have reported separately on the parent company financial statements of Galliford Try plc for the year ended 30 June 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

S R Wootten (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
10 September 2009

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

| | Notes | 2009 Before exceptional items £m | 2009 Exceptional items £m | 2009 Total £m | 2008 Before exceptional items £m | 2008 Exceptional items £m | 2008 Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 2 | **1,461.2** | **–** | **1,461.2** | 1,831.9 | – | 1,831.9 |
| Cost of sales | | **(1,344.9)** | **(40.6)** | **(1,385.5)** | (1,660.6) | (9.1) | (1,669.7) |
| **Gross profit/(loss)** | | **116.3** | **(40.6)** | **75.7** | 171.3 | (9.1) | 162.2 |
| Administrative expenses | | **(83.4)** | **(10.8)** | **(94.2)** | (90.7) | (2.4) | (93.1) |
| Share of post tax (losses)/profits from joint ventures | 12 | **(1.0)** | **–** | **(1.0)** | 2.0 | – | 2.0 |
| **Profit/(loss) before finance costs** | 2 | **31.9** | **(51.4)** | **(19.5)** | 82.6 | (11.5) | 71.1 |
| Profit from operations | | **31.2** | **(51.4)** | **(20.2)** | 85.4 | (11.5) | 73.9 |
| Share of joint ventures' tax | | **2.7** | **–** | **2.7** | (0.8) | – | (0.8) |
| Amortisation of intangibles | | **(2.0)** | **–** | **(2.0)** | (2.0) | – | (2.0) |
| **Profit/(loss) before finance costs** | | **31.9** | **(51.4)** | **(19.5)** | 82.6 | (11.5) | 71.1 |
| Finance income | 4 | **3.8** | **–** | **3.8** | 6.5 | – | 6.5 |
| Finance costs | 4 | **(11.2)** | **–** | **(11.2)** | (17.3) | – | (17.3) |
| **Profit/(loss) before income tax** | 5 | **24.5** | **(51.4)** | **(26.9)** | 71.8 | (11.5) | 60.3 |
| Income tax (expense)/income | 6 | **(6.0)** | **15.1** | **9.1** | (21.2) | 3.4 | (17.8) |
| **Profit/(loss) for the year** | 30 | **18.5** | **(36.3)** | **(17.8)** | 50.6 | (8.1) | 42.5 |
| **Earnings/(loss) per share** | | | | | | | |
| – Basic | 8 | **4.9p** | | **(4.8)p** | 13.6p | | 11.4p |
| – Diluted | 8 | **4.9p** | | **(4.8)p** | 13.6p | | 11.4p |
| Dividend per share declared | 7 | | | **1.5p** | | | 3.0p |

The notes on pages 49 to 86 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| (Loss)/profit for the year | | **(17.8)** | 42.5 |
| Net losses on revaluation of available for sale financial assets taken to equity | 13 | **–** | (0.3) |
| Realisation of gains on revaluation of available for sale financial assets taken to equity | | **–** | (1.1) |
| Actuarial losses recognised on retirement benefit obligations | 32 | **(6.5)** | (11.8) |
| Deferred tax on items recognised in equity | 6 | **1.8** | 1.9 |
| Net losses recognised directly in equity | | **(4.7)** | (11.3) |
| **Total recognised (expense)/income for the year** | | **(22.5)** | 31.2 |

# CONSOLIDATED BALANCE SHEET
## AT 30 JUNE 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non current assets** | | | |
| Intangible assets | 9 | **8.2** | 10.2 |
| Goodwill | 10 | **115.0** | 115.0 |
| Property, plant and equipment | 11 | **8.3** | 8.0 |
| Investments in joint ventures | 12 | **0.7** | 12.5 |
| Financial assets | | | |
| – Available for sale financial assets | 13 | **9.4** | 3.6 |
| – Derivative financial assets | 25 | **–** | 0.7 |
| Trade and other receivables | 17 | **40.3** | 23.0 |
| Deferred income tax assets | 24 | **12.0** | 10.7 |
| Total non current assets | | **193.9** | 183.7 |
| **Current assets** | | | |
| Inventories | 14 | **0.9** | 1.7 |
| Developments | 15 | **447.6** | 610.3 |
| Trade and other receivables | 17 | **213.5** | 308.7 |
| Cash and cash equivalents | 18 | **159.5** | 134.4 |
| | | **821.5** | 1,055.1 |
| Non current assets classified as held for sale | 12 | **12.1** | – |
| Total current assets | | **833.6** | 1,055.1 |
| **Total assets** | | **1,027.5** | 1,238.8 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Financial liabilities – borrowings | 22 | **(13.0)** | (15.8) |
| Trade and other payables | 19 | **(546.2)** | (704.9) |
| Current income tax liabilities | 20 | **(4.6)** | (10.3) |
| Provisions for other liabilities and charges | 21 | **(0.6)** | (2.5) |
| Total current liabilities | | **(564.4)** | (733.5) |
| Net current assets | | **269.2** | 321.6 |
| **Non current liabilities** | | | |
| Financial liabilities | | | |
| – Borrowings | 22 | **(112.4)** | (120.3) |
| – Derivative financial liabilities | 25 | **(2.8)** | – |
| Retirement benefit obligations | 32 | **(27.5)** | (27.4) |
| Deferred income tax liabilities | 24 | **(14.3)** | (17.4) |
| Other non current liabilities | 23 | **(11.4)** | (14.5) |
| Provisions for other liabilities and charges | 21 | **(0.1)** | (0.4) |
| Total non current liabilities | | **(168.5)** | (180.0) |
| **Total liabilities** | | **(732.9)** | (913.5) |
| **Net assets** | | **294.6** | 325.3 |
| **Shareholders' equity** | | | |
| Ordinary shares | 26 | **18.9** | 18.9 |
| Share premium | 28 | **190.8** | 190.8 |
| Other reserves | 28 | **5.3** | 5.3 |
| Retained earnings | 29 | **79.6** | 110.3 |
| **Total shareholders' equity** | | **294.6** | 325.3 |

The notes on pages 49 to 86 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 86 were approved by the board on 10 September 2009 and signed on its behalf by:

**Greg Fitzgerald**
Chief Executive

**Frank Nelson**
Finance Director

# CONSOLIDATED CASH FLOW STATEMENT
# FOR THE YEAR ENDED 30 JUNE 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 31 | **47.4** | 149.6 |
| Interest received | | **3.0** | 4.5 |
| Interest paid | | **(6.3)** | (14.6) |
| Income tax received/(paid) | | **0.8** | (16.0) |
| **Net cash generated from operating activities** | | **44.9** | 123.5 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint venture | 12 | **2.8** | – |
| Acquisition of subsidiaries (net of cash acquired) | | **–** | (6.1) |
| Acquisition of investments in joint ventures | 12 | **(5.1)** | (4.5) |
| Acquisition of available for sale financial assets | 13 | **–** | (2.9) |
| Proceeds from sale of joint ventures | 12 | **5.2** | – |
| Proceeds from available for sale financial assets | | **0.2** | 3.9 |
| Acquisition of property, plant and equipment | 11 | **(3.4)** | (3.3) |
| Proceeds from sale of property, plant and equipment | | **0.8** | 0.3 |
| **Net cash generated from/(used in) investing activities** | | **0.5** | (12.6) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary share capital | | **–** | 0.3 |
| Purchase of own shares | 30 | **–** | (2.5) |
| Repayment of borrowings | | **(14.8)** | (34.2) |
| Increase in borrowings | | **4.1** | 32.1 |
| Dividends paid to Company shareholders | 7 | **(9.6)** | (11.7) |
| **Net cash used in financing activities** | | **(20.3)** | (16.0) |
| **Net increase in cash and cash equivalents** | | **25.1** | 94.9 |
| Cash and cash equivalents at 1 July | 18 | **134.4** | 39.5 |
| **Cash and cash equivalents at 30 June** | 18 | **159.5** | 134.4 |

The notes on pages 49 to 86 are an integral part of these consolidated financial statements.

# NOTES TO THE
# CONSOLIDATED FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

**General information**
Galliford Try plc is a company incorporated and domiciled in England and Wales (Registered Number 836539). The address of the registered office is Galliford Try plc, Cowley Business Park, Cowley, Uxbridge, UB8 2AL. Galliford Try is a construction and housebuilding group.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. The amounts stated are denominated in millions (£m).

**Basis of accounting**
These financial statements have been prepared in accordance with EU adopted International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, retirement benefit obligations, share based payments, and financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee, and endorsed by the EU, relevant to its operations and effective on 1 July 2008.

In the current year, the Group has adopted the following new accounting standards:

> IFRIC 12, Service concession arrangements outlines an approach to account for contractual arrangements arising from entities providing public services. The adoption of this standard has not had a significant impact on the Group's financial statements.
> IFRIC 13, Customer loyalty programmes provides guidance on accounting for customer loyalty programmes but is not relevant to the Group's operation.
> Amendment to IAS 39, Financial instruments: Recognition and measurement, and IFRS 7, Financial instruments: Disclosures on the reclassification of financial assets. The adoption of this amendment has no impact on the Group's financial statements.

**Critical accounting estimates and judgements**
The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Material estimates and assumptions are made in particular with regards to establishing the following policies:

***(i) Impairment of goodwill and intangible assets***
The determination of the value of any impairment of goodwill and intangible assets requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an estimate of the future cash flows expected from these cash-generating units including the anticipated growth rate of revenue and costs and requires the determination of a suitable discount rate to calculate the present value of the cash flows. Details of the goodwill impairment review calculation are included in note 10.

***(ii) Estimation of costs to complete***
In order to determine the profit and loss that the Group is able to recognise on its developments and construction contracts in a specific period, the Group has to allocate total costs of the developments and construction contracts between the proportion completing in the period and the proportion to complete in a future period. The assessment of the total costs to be incurred requires a degree of estimation. However, Group management has established internal controls to review and ensure the appropriateness of estimates made.

***(iii) Retirement benefit obligation valuations***
In determining the valuation of defined benefit schemes assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

> expected return on plan assets
> inflation rate
> mortality
> discount rate
> salary and pension increases

Details of the assumptions used are included in note 32.

**Basis of consolidation**
The Group financial statements incorporate the results of Galliford Try plc, its subsidiary undertakings and the Group's share of the results of joint ventures. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 1 ACCOUNTING POLICIES continued

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. The identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date, irrespective of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

In addition to total performance measures, the Group discloses additional information including performance before exceptional items, profit from operations and adjusted earnings per share. The Group believes that this additional information provides useful information on underlying trends. This additional information is not defined under IFRS, and may therefore not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit.

### Exceptional items

Material non-recurring items of income and expense are disclosed in the income statement as "exceptional items". Examples of items which may give rise to disclosure as exceptional items include gains and losses on the disposal of businesses, investments and property, plant and equipment, cost of restructuring and reorganisation of businesses, asset impairments and pension fund settlements and curtailments.

### Segment reporting

Segment reporting is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting reflects the Group's management and internal reporting structure. Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

### Revenue and profit

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the purchaser. Revenue comprises the fair value of the consideration received or receivable net of rebates, discounts and value added tax. Sales within the Group are eliminated. Revenue also includes the Group's proportion of work carried out under jointly controlled operations.

Revenue and profit are recognised as follows:

***(i) Housebuilding and land sales***

Revenue from private housing sales is recognised at legal completion, net of incentives. Revenue from land sales is recognised on the unconditional exchange of contracts. Profit is recognised on a site by site basis by reference to the expected result of each site.

***(ii) Facilities management contracts***

Revenue is recognised on an accruals basis once the service has been performed. Profit is recognised by reference to the specific costs incurred relating to the service provided.

***(iii) Construction contracts***

Revenue comprises the value of construction executed during the year and contracted development sales. The results for the year include adjustments for the outcome of contracts, including jointly controlled operations, executed in both the current and preceding years.

(a) Fixed price contracts – Revenue is recognised based upon an internal assessment of the value of works carried out. This assessment is arrived at after due consideration of the performance against the programme of works, measurement of the works, detailed evaluation of the costs incurred and comparison to external certification of the work performed. The amount of profit to be recognised is calculated based on the proportion that costs to date bear to the total estimated costs to complete. Revenue and profit are not recognised in the income statement until the outcome of the contract is reasonably certain. Adjustments arise from claims by customers or third parties in respect of work carried out and claims and variations on customers or third parties for variations on the original contract. Provision for claims against the Group is made as soon as it is believed that a liability will arise, but claims and variations made by the Group are not recognised in the income statement until the outcome is virtually certain. Provision will be made against any potential loss as soon as it is identified.

(b) Cost plus contracts – Revenue is recognised based upon costs incurred to date plus any agreed fee. Where contracts include a target price consideration is given to the impact on revenue of the mechanism for distributing any savings or additional costs compared to the target price. Any revenue over and above the target price is recognised once the outcome is virtually certain. Profit is recognised on a constant margin throughout the life of the contract. Provision will be made against any potential loss as soon as it is identified.

Amounts recoverable on contracts are stated at cost plus attributable profit less any foreseeable losses and payments on account and are included in receivables and payables respectively.

***(iv) Housing corporation grants***

Grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. The grants are recognised as revenue over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

## 1 ACCOUNTING POLICIES continued

### Bid costs for PFI/PPP contracts
Bid costs relating to PFI/PPP projects are not carried in the balance sheet as recoverable until the Group has been appointed preferred bidder or has received an indemnity in respect of the investment or costs, and regards recoverability of the costs as virtually certain.

### Rent receivable
Rental income represents income obtained from the rental of properties and is credited to the income statement on a straight line basis over the period of the lease within revenue.

### Interest income and expense
Interest income and expense is recognised on a time proportion basis using the effective interest method.

### Income tax
Current income tax is based on the taxable profit for the year. Taxable profit differs from profit before taxation recorded in the income statement because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The liability for current tax is calculated using rates that have been enacted, or substantially enacted, by the balance sheet date.

Deferred income tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred income tax is accounted for on an undiscounted basis. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying temporary differences can be deducted.

Deferred income tax is charged or credited through the income statement, except when it relates to items charged or credited through the Statement of Recognised Income and Expense, when it is charged or credited there.

### Goodwill
Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the net assets acquired. It is recognised as an asset and reviewed for impairment at least annually or when there is a triggering event by considering the net present value of future cash flows. Any impairment is charged immediately to the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts following impairment tests. Goodwill written off to reserves under UK GAAP prior to 1998 has not been restated.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### Intangible assets
Intangible assets include brands, customer contracts and customer relationships acquired on acquisition of subsidiary companies. The intangible assets are reviewed for impairment at least annually or when there is a triggering event. Intangible assets are stated at amortised cost less any impairment.

Intangible assets are being amortised over the following periods:

(a) Brand – on a straight line basis over 4 to 10 years.
(b) Customer contracts – in line with expected profit generation varying from 1 to 9 years.
(c) Customer relationships – on a straight line basis over three years.

### Property, plant and equipment
Land and buildings comprise mainly offices and are stated at cost less accumulated depreciation and impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated to write off the cost of each asset to estimated residual value over its expected useful life. Freehold land is not depreciated. The annual rates of depreciation are as follows:

| | |
|---|---|
| Freehold buildings | 2% |

On cost or reducing balance:

| | |
|---|---|
| Plant and machinery | 15% to 33% |
| Fixtures and fittings | 10% to 33% |

In addition to systematic depreciation the book value of property, plant and equipment would be written down to estimated recoverable amount should any impairment in the respective carrying values be identified.

The asset residual values, carrying values and useful lives are reviewed on an annual basis and adjusted if appropriate at each balance sheet date.

Repairs and maintenance expenditure is expensed as incurred on an accruals basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 1 ACCOUNTING POLICIES continued

### Joint ventures
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties. The Group's interest in joint ventures is accounted for using the equity method. Under this method the Group's share of profits less losses after taxation of joint ventures is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil and recognition of further losses is discontinued. Future profits are not recognised until unrecognised losses are extinguished. Accounting policies of joint ventures have been changed where necessary to ensure consistency with policies adopted by the Group. Where joint ventures do not adopt accounting periods that are coterminous with the Group's, results and net assets are based upon unaudited accounts drawn up to the Group's accounting reference date.

### Jointly controlled operations and assets
The Group accounts for jointly controlled operations and assets by recognising its share of profits and losses in the consolidated income statement. The Group recognises its share of associated assets and liabilities in the consolidated balance sheet.

### Available for sale financial assets
Available for sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months of the balance sheet date. On initial recognition the asset is recognised at fair value plus transaction costs. Available for sale financial assets are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

### Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals under operating leases are charged to the income statement on a straight line basis over the lease term.

Assets held under finance leases and hire purchase contracts are included in property, plant and equipment and depreciated over their anticipated useful lives or the length of the lease, whichever is shorter. The capital element of outstanding obligations is included in payables. The finance element of lease payments is charged to the income statement as finance cost.

### Inventories and developments
Inventories and developments are valued at the lower of cost and net realisable value. Work in progress is valued at the lower of cost, including attributable overheads, and net realisable value. On initial recognition, land is included within developments at its fair value, which is its cost to the Group. Land inventory is recognised at the time a liability is recognised which is generally after the exchange of conditional contracts once it is virtually certain the contract will be completed.

Where a development is in progress net realisable value is assessed by considering the expected future revenues and the total costs to complete the development. To the extent that the Group anticipates selling a development in its current state then net realisable value is taken as its open market value at the balance sheet date less any anticipated selling costs.

### Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (typically more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'cost of sales'.

When a trade receivable is uncollectible, it is written off against the impairment provision for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'cost of sales' in the income statement. Short term trade receivables do not carry any interest and are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

### Long term receivables
The Group operates schemes under which part of the agreed sales price for a residential property can be deferred until the earlier of 10 years, remortgage or resale of the property. If the deferred payment is of a fixed amount the receivable amounts are designated as loans and receivables. The initial carrying value of amounts receivable under this scheme is the discounted amount at the prevailing interest rate. The carrying amount at each subsequent year end is then amortised cost with an assessment of the recoverability of the deferred amount. The unwind of the discount is recognised as finance income in the year. Any provision made against the recoverable amounts is adjusted in revenue. Schemes under which the Group receives a final payment linked to the property value at the time of settlement are recognised as available for sale financial assets. Other long term receivables are accounted for in accordance with the trade receivables policy above.

## 1 ACCOUNTING POLICIES continued

### Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less. Bank overdrafts are also included as they are an integral part of the Group's cash management.

### Bank and other borrowings
Interest bearing bank loans and overdrafts and other loans are originally recognised at fair value net of transaction costs incurred. Such borrowings are subsequently stated at amortised cost with the difference between initial fair value and redemption value recognised in the income statement over the period to redemption.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method. Re-financing costs associated with new borrowing arrangements are included within the borrowing amount and amortised over the period of the loan.

### Trade payables
Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land, are recorded at their fair value at the date of acquisition of the asset to which they relate. The discount to nominal value is amortised over the period of the credit term and charged to finance costs using the effective interest rate.

### Provisions for liabilities and charges
Provisions for onerous leases and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination costs and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

### Derivative financial instruments
Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

The Group uses derivative financial instruments to manage its exposure to interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments, mainly comprising interest rate swaps, are initially accounted for and measured at fair value at the point the derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement.

### Foreign currency
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

### Retirement benefit obligations
For defined contribution schemes operated by the Group, amounts payable are charged to the income statement as they accrue.

For defined benefit schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit method. The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are recognised in full in the period in which they occur in the Statement of Recognised Income and Expense. Gains and losses arising on curtailment and settlements are taken to the income statement as incurred.

### Accounting for Employee Share Ownership Plan
Own shares held by the Galliford Try Employee Share Trust ("The Trust") are shown, at cost less any permanent diminution in value, as a deduction from retained earnings. The charge made to the income statement for employee share awards and options is based on the fair value of the award at the date of grant spread over the performance period. Where such shares subsequently vest to the employees under the terms of the Group's share option schemes or are sold, any consideration received is included in shareholders' equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 1 ACCOUNTING POLICIES continued

### Share based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions such as growth in earnings per share. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### Dividend policy

Final dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of directly attributable incremental issue costs.

Consideration paid for shares in the Group held by the Employee Benefit Trust are deducted from total shareholders' equity.

### New IFRS standards and interpretations not applied

IFRS 8, Operating segments (effective for accounting periods beginning on or after 1 January 2009) replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard uses a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 July 2009 but it is not expected to have a significant impact on the Group's financial statements.

Amendment to IAS 23, Borrowing costs (effective for accounting periods beginning on or after 1 January 2009), which gives guidance on the accounting for borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group will apply the amendment to IAS 23 from 1 July 2009 but it is not expected to have a significant impact on the Group's financial statements.

Amendment to IFRS 2, Share based payments on vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). The Group will apply this amendment from 1 July 2009 but it is not expected to have a significant impact on the Group's financial statements.

Amendment to IAS 32, Financial instruments presentation and IAS 1 presentation of financial statements: Puttable financial instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009). The Group will apply this amendment from 1 July 2009 but it will have no impact on the Group's financial statements.

Amendment to IFRS 1, First time adoption of IFRS and IAS 27, Consolidated and separate financial statements on the cost of an investment in a subsidiary, jointly controlled entity or associate (amendment effective for accounting periods beginning on or after 1 July 2009). The Group will apply this amendment from 1 July 2009 but it will have no impact on the Group's financial statements.

IFRS 3, Business combinations (amendment effective for accounting periods beginning on or after 1 July 2009). The revised standard makes significant changes to the acquisition method of accounting for business combinations but will only affect the Group's financial statements if a material acquisition is made after 1 July 2009 as the standard will not apply retrospectively.

IAS 1, (Revised) Presentation of financial statements (effective for accounting periods beginning on or after 1 January 2009). The Group will apply IAS 1 (Revised) with effect from 1 July 2009 but it is not expected to have a significant impact on the Group's financial statements.

IFRIC 15, Agreements for the construction of real estate (effective for accounting periods beginning after 31 December 2008). The Group will apply IFRIC 15 with effect from 1 July 2009 but it is not expected to have a significant impact on the Group's financial statements.

IFRIC 16, Hedges of a net investment in a foreign operation (effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 is not relevant to the Group's operation.

IFRIC 17, Distribution of non-cash assets to owners (effective for accounting periods beginning on or after 1 July 2009). IFRIC 17 is not expected to have a significant impact on the Group's financial statements.

IFRIC 18, Transfer of assets from customers (effective for accounting periods beginning on or after 1 July 2009). IFRIC 18 is not relevant to the Group's operation.

## 2 SEGMENTAL REPORTING

Segment reporting is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting reflects the Group's management and internal reporting structure. Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. As the Group has no material activities outside the UK, segmental reporting is not required by geographical region. Inter-segment revenue is not material.

During the year the Group adopted IFRIC 12, 'Service concession arrangements', which outlines an approach to account for contractual arrangements arising from entities providing public services. The adoption of this interpretation has resulted in the restatement of the accounts of some of the Group's joint venture companies. This has had no impact on the Group's operating profit/(loss) but has resulted in a change in the analysis of the share of joint ventures profits/(losses) after interest and tax as shown in note 12. The Group's share of joint ventures' revenue in 2008 increased by £31.7 million, expenses increased by £29.6 million and finance cost increased by £2.1 million. As a result of this restatement, finance cost of joint ventures have now been reclassified to form part of profit from operations. Profit/(loss) from operations is now stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax. The 2008 comparative segmental analysis has been restated accordingly.

**Primary reporting format – business segments**

| | Construction | | | | Affordable | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | PPP | housing and | House- | | |
| | Building £m | Infrastructure £m | Total £m | Investments £m | regeneration £m | building £m | Group £m | Total £m |
| **Year ended 30 June 2009** | | | | | | | | |
| Group revenue and share of joint venture revenue | **546.3** | **516.6** | **1,062.9** | **27.4** | **184.4** | **235.1** | **0.5** | **1,510.3** |
| Share of joint ventures' revenue | **(0.5)** | **(10.8)** | **(11.3)** | **(25.8)** | **(8.7)** | **(3.3)** | **–** | **(49.1)** |
| Revenue | **545.8** | **505.8** | **1,051.6** | **1.6** | **175.7** | **231.8** | **0.5** | **1,461.2** |
| Segment result: | | | | | | | | |
| Profit/(loss) before joint ventures and amortisation | **12.9** | **13.9** | **26.8** | **2.3** | **7.4** | **4.4** | **(6.0)** | **34.9** |
| Share of joint ventures' profit/(loss) and interest | **0.1** | – | **0.1** | **(1.8)** | **(1.1)** | **(0.9)** | – | **(3.7)** |
| Profit/(loss) from operations* | **13.0** | **13.9** | **26.9** | **0.5** | **6.3** | **3.5** | **(6.0)** | **31.2** |
| Share of joint ventures' tax | **–** | **–** | **–** | **0.7** | **1.0** | **1.0** | **–** | **2.7** |
| Profit/(loss) before finance costs, amortisation and exceptional items | **13.0** | **13.9** | **26.9** | **1.2** | **7.3** | **4.5** | **(6.0)** | **33.9** |
| Amortisation of intangibles | **(0.3)** | **(0.6)** | **(0.9)** | **–** | **(0.3)** | **(0.8)** | **–** | **(2.0)** |
| Exceptional items | **–** | **–** | **–** | **–** | **(12.2)** | **(39.2)** | **–** | **(51.4)** |
| Profit/(loss) before finance costs | **12.7** | **13.3** | **26.0** | **1.2** | **(5.2)** | **(35.5)** | **(6.0)** | **(19.5)** |
| Net finance income/(costs) | **3.5** | **1.0** | **4.5** | **(0.4)** | **(6.4)** | **(18.3)** | **13.2** | **(7.4)** |
| Profit/(loss) before taxation | **16.2** | **14.3** | **30.5** | **0.8** | **(11.6)** | **(53.8)** | **7.2** | **(26.9)** |
| Income tax income | | | | | | | | **9.1** |
| Loss for the year | | | | | | | | **(17.8)** |
| **Restated** | | | | | | | | |
| **Year ended 30 June 2008** | | | | | | | | |
| Group revenue and share of joint venture revenue | 605.4 | 541.3 | 1,146.7 | 36.7 | 230.4 | 486.3 | 0.3 | 1,900.4 |
| Share of joint ventures' revenue | (1.6) | (9.4) | (11.0) | (35.2) | (7.0) | (15.3) | – | (68.5) |
| Revenue | 603.8 | 531.9 | 1,135.7 | 1.5 | 223.4 | 471.0 | 0.3 | 1,831.9 |
| Segment result | | | | | | | | |
| Profit/(loss) before joint ventures and amortisation | 11.8 | 13.8 | 25.6 | 0.2 | 12.7 | 51.0 | (6.9) | 82.6 |
| Share of joint ventures' profit and interest | 0.1 | – | 0.1 | 0.1 | 0.4 | 2.2 | – | 2.8 |
| Profit/(loss) from operations* | 11.9 | 13.8 | 25.7 | 0.3 | 13.1 | 53.2 | (6.9) | 85.4 |
| Share of joint ventures' tax | – | – | – | – | (0.1) | (0.7) | – | (0.8) |
| Profit/(loss) before finance costs, amortisation and exceptional items | 11.9 | 13.8 | 25.7 | 0.3 | 13.0 | 52.5 | (6.9) | 84.6 |
| Amortisation of intangibles | (0.3) | (0.3) | (0.6) | – | (0.2) | (1.2) | – | (2.0) |
| Exceptional items | – | – | – | – | – | (11.5) | – | (11.5) |
| Profit/(loss) before finance costs | 11.6 | 13.5 | 25.1 | 0.3 | 12.8 | 39.8 | (6.9) | 71.1 |
| Net finance income/(costs) | 5.5 | 1.3 | 6.8 | (0.5) | (4.5) | (29.2) | 16.6 | (10.8) |
| Profit/(loss) before taxation | 17.1 | 14.8 | 31.9 | (0.2) | 8.3 | 10.6 | 9.7 | 60.3 |
| Income tax expense | | | | | | | | (17.8) |
| Profit for the year | | | | | | | | 42.5 |

*Profit from operations is stated before finance costs, amortisation, share of joint ventures' tax, exceptional items and tax.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 2 SEGMENTAL REPORTING continued

### Primary reporting format – business segments

| | Construction | | | PPP | Affordable housing and | House- | | |
|---|---|---|---|---|---|---|---|---|
| | Building £m | Infrastructure £m | Total £m | Investments £m | regeneration £m | building £m | Group £m | Total £m |
| **Year ended 30 June 2009** | | | | | | | | |
| **Assets** | | | | | | | | |
| Goodwill | **18.0** | **37.2** | **55.2** | **1.9** | **12.5** | **45.4** | **–** | **115.0** |
| Intangible assets | **–** | **0.3** | **0.3** | **–** | **1.2** | **6.7** | **–** | **8.2** |
| Investment in joint ventures | **0.4** | **–** | **0.4** | **–** | **–** | **0.3** | **–** | **0.7** |
| Other assets excluding income taxes and cash | **98.3** | **95.4** | **193.7** | **13.2** | **184.1** | **335.0** | **6.1** | **732.1** |
| Total | **116.7** | **132.9** | **249.6** | **15.1** | **197.8** | **387.4** | **6.1** | **856.0** |
| **Liabilities** | | | | | | | | |
| Other liabilities excluding income taxes and debt | **(243.1)** | **(161.2)** | **(404.3)** | **(2.8)** | **(44.3)** | **(85.3)** | **(51.9)** | **(588.6)** |
| Net assets/(liabilities) excluding income taxes, net cash/(debt), goodwill and intangible assets | **(144.4)** | **(65.8)** | **(210.2)** | **10.4** | **139.8** | **250.0** | **(45.8)** | **144.2** |
| Goodwill and intangible assets | **18.0** | **37.5** | **55.5** | **1.9** | **13.7** | **52.1** | **–** | **123.2** |
| Net assets/(liabilities) excluding income taxes and net cash/(debt) | **(126.4)** | **(28.3)** | **(154.7)** | **12.3** | **153.5** | **302.1** | **(45.8)** | **267.4** |
| Income taxes | | | | | | | | **(6.9)** |
| Net cash | | | | | | | | **34.1** |
| **Net assets** | | | | | | | | **294.6** |
| **Year ended 30 June 2008** | | | | | | | | |
| **Assets** | | | | | | | | |
| Goodwill | 18.0 | 37.2 | 55.2 | 1.9 | 12.5 | 45.4 | – | 115.0 |
| Intangible assets | 0.2 | 0.9 | 1.1 | – | 1.5 | 7.6 | – | 10.2 |
| Investment in joint ventures | 0.3 | – | 0.3 | 9.1 | – | 3.1 | – | 12.5 |
| Other assets excluding income taxes and cash | 125.7 | 144.1 | 269.8 | 1.5 | 117.1 | 551.0 | 16.6 | 956.0 |
| Total | 144.2 | 182.2 | 326.4 | 12.5 | 131.1 | 607.1 | 16.6 | 1,093.7 |
| **Liabilities** | | | | | | | | |
| Other liabilities excluding income taxes and debt | 275.1 | 213.0 | 488.1 | 3.2 | 74.3 | 136.9 | 47.2 | 749.7 |
| Net assets/(liabilities) excluding income taxes, net cash/(debt), goodwill and intangible assets | (149.1) | (68.9) | (218.0) | 7.4 | 42.8 | 417.2 | (30.6) | 218.8 |
| Goodwill and intangible assets | 18.2 | 38.1 | 56.3 | 1.9 | 14.0 | 53.0 | – | 125.2 |
| Net assets/(liabilities) excluding income taxes and net cash/(debt) | (130.9) | (30.8) | (161.7) | 9.3 | 56.8 | 470.2 | (30.6) | 344.0 |
| Income taxes | | | | | | | | (17.0) |
| Net debt | | | | | | | | (1.7) |
| **Net assets** | | | | | | | | 325.3 |

## 2 SEGMENTAL REPORTING continued

### Other segment items

| | Note | Construction Building £m | Construction Infrastructure £m | Construction Total £m | PPP Investments £m | Affordable housing and regeneration £m | House-building £m | Group £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2009** | | | | | | | | | |
| Contracting revenue | | **531.7** | **495.9** | **1,027.6** | **–** | **176.9** | **–** | **–** | **1,204.5** |
| Capital expenditure (including acquisitions) | | | | | | | | | |
| – Property, plant and equipment | 11 | **0.4** | **2.1** | **2.5** | **–** | **–** | **0.3** | **0.6** | **3.4** |
| – Intangible assets | 9 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| – Goodwill | 10 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Depreciation | 11 | **0.4** | **1.1** | **1.5** | **–** | **–** | **0.2** | **0.7** | **2.4** |
| Impairment of receivables | 5 | **0.2** | **–** | **0.2** | **–** | **–** | **–** | **–** | **0.2** |
| Share based payments | 3 | **0.5** | **0.6** | **1.1** | **–** | **–** | **0.2** | **0.1** | **1.4** |
| Amortisation of intangible assets | 5 | **0.3** | **0.6** | **0.9** | **–** | **0.3** | **0.8** | **–** | **2.0** |
| **Year ended 30 June 2008** | | | | | | | | | |
| Contracting revenue | | 592.7 | 507.1 | 1,099.8 | – | 204.8 | – | – | 1,304.6 |
| Capital expenditure (including acquisitions) | | | | | | | | | |
| – Property, plant and equipment | 11 | 1.5 | 1.6 | 3.1 | – | – | 0.2 | 1.2 | 4.5 |
| – Intangible assets | 9 | 0.2 | – | 0.2 | – | – | – | – | 0.2 |
| – Goodwill | 10 | 5.8 | – | 5.8 | – | – | – | – | 5.8 |
| Depreciation | 11 | 0.5 | 0.5 | 1.0 | – | – | 0.4 | 0.7 | 2.1 |
| Impairment of receivables | 5 | 0.2 | – | 0.2 | – | – | 0.3 | – | 0.5 |
| Share based payments | 3 | 0.5 | 0.6 | 1.1 | – | – | 0.3 | – | 1.4 |
| Amortisation of intangible assets | 5 | 0.3 | 0.3 | 0.6 | – | 0.2 | 1.2 | – | 2.0 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 3 EMPLOYEES AND DIRECTORS

| Employee benefit expense for the Group during the year | 2009 £m | 2008 £m |
|---|---|---|
| Wages and salaries | **158.5** | 175.3 |
| Redundancy and termination costs | **2.3** | 2.0 |
| Social security costs | **17.4** | 18.3 |
| Retirement benefit costs (see note 32) | **7.7** | 6.1 |
| Share based payments (see note 27) | **1.4** | 1.4 |
| | **187.3** | 203.1 |

| Average monthly number of people (including executive directors) employed | 2009 Number | 2008 Number |
|---|---|---|
| By business group: | | |
| Building | **1,216** | 1,372 |
| Infrastructure | **1,796** | 1,829 |
| Construction Total | **3,012** | 3,201 |
| PPP Investments | **20** | 21 |
| Affordable housing and regeneration | **387** | 359 |
| Housebuilding | **375** | 694 |
| Group | **238** | 236 |
| | **4,032** | 4,511 |

**Remuneration of key management personnel**

The key management personnel comprise the Executive Board and non executive directors. The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report.

| | 2009 £m | 2008 £m |
|---|---|---|
| Salaries and short term employee benefits | **2.3** | 4.8 |
| Retirement benefit costs | **0.2** | 0.5 |
| Share based payments | **0.1** | – |
| | **2.6** | 5.3 |

## 4 NET FINANCE COSTS

| | 2009 £m | 2008 £m |
|---|---|---|
| Interest payable on bank deposits | **1.5** | 3.2 |
| Interest receivable from joint ventures | **2.2** | 1.3 |
| Net finance income on retirement benefit obligations | **–** | 0.9 |
| Other | **0.1** | 1.1 |
| Finance income | **3.8** | 6.5 |
| Interest payable on borrowings | **(5.4)** | (11.7) |
| Unwinding of discounted payables | **(1.5)** | (4.7) |
| Fair value losses on financing activities | | |
| – interest rate swaps | **(3.5)** | (0.7) |
| Net finance cost on retirement benefit obligations | **(0.8)** | – |
| Other | **–** | (0.2) |
| Finance costs | **(11.2)** | (17.3) |
| Net finance costs | **(7.4)** | (10.8) |

## 5 PROFIT/(LOSS) BEFORE INCOME TAX

The following items have been included in arriving at profit/(loss) before income tax:

| | Note | 2009 £m | 2008 £m |
|---|---|---|---|
| Employee benefit expense | 3 | **187.3** | 203.1 |
| Depreciation of property, plant and equipment: | | | |
| – Owned assets | 11 | **2.4** | 2.1 |
| Amortisation of intangible assets | 9 | **2.0** | 2.0 |
| Profit on disposal of property, plant and equipment | | **(0.1)** | (0.1) |
| Profit on sale of investments | 12 | **(4.2)** | (2.8) |
| Other operating lease rentals payable: | | | |
| – Plant and machinery | | **52.6** | 81.6 |
| – Property | | **3.8** | 3.3 |
| Inventories recognised as an expense | | **9.5** | 12.3 |
| Developments recognised as an expense | | **321.8** | 484.7 |
| Repairs and maintenance expenditure on property, plant and equipment | | **0.9** | 0.8 |
| Impairment of receivables | 17 | **0.2** | 0.5 |
| Exceptional items | | **51.4** | 11.5 |

**Exceptional items**
In light of the significant further deterioration in the housing market during the year, the Group completed a review of the carrying value of its housing assets and operations. Total exceptional costs of £51.4 million (2008: £11.5 million) have been accounted for in the period comprising write-downs of housing related assets of £50.4 million (2008: £9.6 million) and redundancy cost of £1.0 million (2008: £1.9 million).

These amounts have been treated as exceptional items in accordance with the Group's accounting policy. The income tax credit associated with the exceptional items amounted to £15.1 million (2008: £3.4 million).

**Services provided by the Group's auditors and network firms**
During the year the Group obtained the following services from the Group's auditors at costs as detailed below:

| | 2009 £m | 2008 £m |
|---|---|---|
| Fees payable to Company's auditor for the audit of parent company and consolidated financial statements | **0.2** | 0.2 |
| Total audit services | **0.2** | 0.2 |
| The audit of financial statements of the Group's subsidiaries pursuant to legislation | **0.3** | 0.3 |
| Services relating to taxation advice | **0.1** | – |
| Total non-audit services | **0.4** | 0.3 |
| Total | **0.6** | 0.5 |

A description of the work of the audit committee in respect of auditors' independence is set out in the Corporate Governance Report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 6 INCOME TAX EXPENSE/(INCOME)

| | Notes | 2009 Before exceptional items £m | 2009 Exceptional items £m | 2009 Total £m | 2008 Before exceptional items £m | 2008 Exceptional items £m | 2008 Total £m |
|---|---|---|---|---|---|---|---|
| **Analysis of charge in year** | | | | | | | |
| Current year's income tax | | | | | | | |
| Current tax | | 8.3 | (15.1) | (6.8) | 22.6 | (3.4) | 19.2 |
| Deferred tax | 24 | (2.3) | – | (2.3) | (1.5) | – | (1.5) |
| Adjustments in respect of prior years | | | | | | | |
| Current tax | | 0.3 | – | 0.3 | 0.9 | – | 0.9 |
| Deferred tax | 24 | (0.3) | – | (0.3) | (0.8) | – | (0.8) |
| | | 6.0 | (15.1) | (9.1) | 21.2 | (3.4) | 17.8 |
| **Tax on items (credited)/charged to equity** | | | | | | | |
| Deferred tax charge on share based payments | | – | – | – | 1.8 | – | 1.8 |
| Deferred tax credit on retirement benefit obligations | | (1.8) | – | (1.8) | (3.3) | – | (3.3) |
| Deferred tax credit on movement in fair value of available for sale financial assets | | – | – | – | (0.4) | – | (0.4) |
| | | (1.8) | – | (1.8) | (1.9) | – | (1.9) |
| Total taxation | | 4.2 | (15.1) | (10.9) | 19.3 | (3.4) | 15.9 |

The total income tax credit for the year of £9.1 million is higher (2008: higher) than the year end standard rate of corporation tax in the UK of 28 per cent (2008: 28 per cent). The differences are explained below:

| | 2009 Before exceptional items £m | 2009 Exceptional items £m | 2009 Total £m | 2008 Before exceptional items £m | 2008 Exceptional items £m | 2008 Total £m |
|---|---|---|---|---|---|---|
| Profit/(loss) before income tax | 24.5 | (51.4) | (26.9) | 71.8 | (11.5) | 60.3 |
| Profit/(loss) before income tax multiplied by the year end standard rate in the UK of 28 per cent (2008: 28 per cent) | 6.8 | (14.4) | (7.6) | 20.1 | (3.2) | 16.9 |
| Effects of: | | | | | | |
| Expenses not deductible for tax purposes | 0.4 | – | 0.4 | 1.4 | – | 1.4 |
| Non taxable income | (1.2) | – | (1.2) | (1.6) | – | (1.6) |
| Change in rate of current income tax | – | (0.7) | (0.7) | 1.1 | (0.2) | 0.9 |
| Adjustments in respect of prior years | – | – | – | 0.1 | – | 0.1 |
| Other | – | – | – | 0.1 | – | 0.1 |
| Income tax expense/(credit) | 6.0 | (15.1) | (9.1) | 21.2 | (3.4) | 17.8 |

## 7 DIVIDENDS

The following dividends were paid by the Company:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | £m | pence per share | £m | pence per share |
| Previous year final | **7.9** | **2.10** | 8.3 | 2.20 |
| Current period interim | **1.7** | **0.45** | 3.4 | 0.90 |
| Dividend recognised in the year | **9.6** | **2.55** | 11.7 | 3.10 |

The following dividends were declared by the Company in respect of each accounting period presented:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | £m | pence per share | £m | pence per share |
| Interim | **1.7** | **0.45** | 3.4 | 0.90 |
| Final | **4.0** | **1.05** | 7.9 | 2.10 |
| Dividend relating to the year | **5.7** | **1.50** | 11.3 | 3.00 |

The directors are proposing a final dividend in respect of the financial year ended 30 June 2009 of 1.05p per share, bringing the total dividend in respect of 2009 to 1.5p per share (2008: 3.0p). The final dividend will absorb approximately £4.0 million of shareholders' funds. Subject to shareholder approval at the Annual General Meeting to be held on 6 November 2009, the dividend will be paid on 13 November 2009 to shareholders who are on the register of members on 18 September 2009.

## 8 EARNINGS/(LOSS) PER SHARE

a) Basic and diluted earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held by the Employee Share Trust (note 29), which are treated as cancelled.

Under normal circumstances, the average number of shares is diluted by reference to the average number of potential ordinary shares held under option in the period. The dilutive effect amounts to the number of ordinary shares which would be purchased using the aggregate difference in value between the market value of shares and the share option price. Only shares that have met their cumulative performance criteria are included in the dilution calculation. The Group has two classes of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's long term incentive plan. A loss per share cannot be reduced through dilution, hence this dilution is only applied where the Group has reported a profit.

The earnings/(loss) and weighted average number of shares used in the calculations are set out below.

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Loss £m | Weighted average number of shares | Per share amount pence | Earnings £m | Weighted average number of shares | Per share amount pence |
| **Basic EPS** | | | | | | |
| (Loss)/earnings attributable to ordinary shareholders | **(17.8)** | **374,044,584** | **(4.8)** | 42.5 | 372,678,133 | 11.4 |
| **Effect of dilutive securities:** | | | | | | |
| Options | | **–** | **–** | | 974,331 | – |
| Diluted EPS | **(17.8)** | **374,044,584** | **(4.8)** | 42.5 | 373,652,464 | 11.4 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 8 EARNINGS/(LOSS) PER SHARE continued

b) Adjusted earnings per share
Adjusted earnings per share based on the earnings before net exceptional items of £36.3 million (2008: £8.1 million) for the year are set out below.

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Earnings £m | Weighted average number of shares | Per share amount pence | Earnings £m | Weighted average number of shares | Per share amount pence |
| **Basic EPS** | | | | | | |
| Earnings attributable to ordinary shareholders | **18.5** | **374,044,584** | **4.9** | 50.6 | 372,678,133 | 13.6 |
| **Effect of dilutive securities:** | | | | | | |
| Options | | **–** | **–** | | 974,331 | – |
| Diluted EPS | **18.5** | **374,044,584** | **4.9** | 50.6 | 373,652,464 | 13.6 |

## 9 INTANGIBLE ASSETS

| | Brand £m | Customer contracts £m | Customer relationships £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 July 2007 | 10.8 | 2.7 | 0.4 | 13.9 |
| Recognised on acquisition of subsidiaries | – | 0.2 | – | 0.2 |
| **At 1 July 2008 and 30 June 2009** | **10.8** | **2.9** | **0.4** | **14.1** |
| **Accumulated amortisation** | | | | |
| At 1 July 2007 | (0.5) | (1.3) | (0.1) | (1.9) |
| Amortisation in year | (1.1) | (0.8) | (0.1) | (2.0) |
| At 1 July 2008 | (1.6) | (2.1) | (0.2) | (3.9) |
| Amortisation in year | (1.3) | (0.5) | (0.2) | (2.0) |
| **At 30 June 2009** | **(2.9)** | **(2.6)** | **(0.4)** | **(5.9)** |
| **Net book amount** | | | | |
| **At 30 June 2009** | **7.9** | **0.3** | **–** | **8.2** |
| At 30 June 2008 | 9.2 | 0.8 | 0.2 | 10.2 |

All amortisation charges in the year have been included in administrative expenses.

## 10 GOODWILL

| | £m |
|---|---|
| **Cost** | |
| At 1 July 2007 | 109.9 |
| Recognised on acquisition of subsidiaries | 5.8 |
| **At 1 July 2008 and 30 June 2009** | **115.7** |
| **Accumulated amortisation and aggregate impairment at 1 July 2007, 2008 and 2009** | **(0.7)** |
| **Net book amount** | |
| **At 30 June 2009** | **115.0** |
| At 30 June 2008 | 115.0 |

**Impairment review of goodwill**
Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

The goodwill is attributable to the following business segments:

| | 2009 £m | 2008 £m |
|---|---|---|
| Building | **18.0** | 18.0 |
| Infrastructure | **37.2** | 37.2 |
| PPP Investments | **1.9** | 1.9 |
| Affordable housing and regeneration | **12.5** | 12.5 |
| Housebuilding | **45.4** | 45.4 |
| | **115.0** | 115.0 |

**Key assumptions**
The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre tax cash flow projections based on future financial budgets approved by the board based on past performance and its expectation of market developments. The key assumptions within these budgets relate to revenue growth and the future gross margin achievable. Future budgeted revenue is based on management's knowledge of actual results from prior years, latest forecasts for the current year along with the existing secured work and management's future expectation of the level of work available within the market sector. In establishing future gross margins, the margins currently being achieved are considered in conjunction with expected inflation rates in each cost category.

Cash is monitored very closely on a daily, weekly and monthly basis for the purposes of managing both treasury and the business as a whole. Details of the Group's treasury management are included within the Business Review on page 25 of the Annual Report. The assumptions used are reviewed regularly and differences between forecast and actual results are closely monitored with variances being investigated fully. The knowledge gained from this past experience is used to ensure that the future assumptions used are consistent with past actual outcome and are management's best estimate of the future cash flows of each business unit. Cash flows beyond the three year period are extrapolated using an estimated growth rate of 3 per cent per annum within building and infrastructure and 2.5 per cent per annum within housebuilding and affordable housing and regeneration. The growth rate used is the Group's estimate of the average long term growth rate for the market sectors in which the CGU operates. A pre tax discount rate of 11.3 per cent (2008: 11.5 per cent) has been applied to the future cash flows.

**Sensitivities**
Sensitivity analysis has been undertaken on each goodwill impairment review, by increasing the discount rate and other variables applicable to each CGU. The following results were noted:

The fair value of the goodwill in both building and infrastructure are substantially in excess of book value. The Group has undertaken extensive impairment testing, taking into account current market conditions within the construction markets, including adjustments to growth rates and discount rates. None of these sensitivities, either individually or combined, resulted in the carrying value of these businesses being reduced to its recoverable amount.

The impairment review relating to Linden Homes goodwill, which is included within the affordable and regeneration and housebuilding segments, is impacted by the current trading conditions within the housing market. The detailed sensitivity analysis indicates that an increase of more than 27 per cent (2008: 10 per cent) in the pre tax discount rate or a reduction of 41 per cent (2008: 17 per cent) in the forecast operating profits of the CGU would give rise to an impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 July 2007 | 2.5 | 2.9 | 7.9 | 13.3 |
| Acquired on acquisition of subsidiaries | 0.8 | 0.3 | 0.1 | 1.2 |
| Additions | 0.2 | 1.3 | 1.8 | 3.3 |
| Disposals | – | (0.9) | (1.3) | (2.2) |
| At 1 July 2008 | 3.5 | 3.6 | 8.5 | 15.6 |
| Additions | – | 2.3 | 1.1 | 3.4 |
| Disposals | (0.1) | (1.1) | (1.5) | (2.7) |
| **At 30 June 2009** | **3.4** | **4.8** | **8.1** | **16.3** |
| **Accumulated depreciation** | | | | |
| At 1 July 2007 | 0.6 | 1.5 | 5.4 | 7.5 |
| Charge for the year | 0.2 | 0.6 | 1.3 | 2.1 |
| Disposals | – | (0.8) | (1.2) | (2.0) |
| At 1 July 2008 | 0.8 | 1.3 | 5.5 | 7.6 |
| Charge for the year | 0.2 | 1.3 | 0.9 | 2.4 |
| Disposals | – | (0.8) | (1.2) | (2.0) |
| **At 30 June 2009** | **1.0** | **1.8** | **5.2** | **8.0** |
| **Net book amount** | | | | |
| **At 30 June 2009** | **2.4** | **3.0** | **2.9** | **8.3** |
| At 30 June 2008 | 2.7 | 2.3 | 3.0 | 8.0 |

There are no assets held under finance leases (2008: £Nil).

The cost of land and building primarily relates to freehold properties.

There has been no impairment of property, plant and equipment during the year (2008: £Nil).

## 12 INVESTMENTS IN JOINT VENTURES

| | 2009 £m | 2008 £m |
|---|---|---|
| At 1 July | | |
| – Net assets excluding goodwill | **9.3** | 3.2 |
| – Goodwill | **3.2** | 3.2 |
| | **12.5** | 6.4 |
| Additions [a] | | |
| – Net assets | **5.1** | 4.5 |
| Transferred to subsidiary undertaking | **–** | (0.4) |
| Transferred to non current assets classified as held for sale [b] | **(12.1)** | – |
| Disposal [c] | **(1.0)** | – |
| Dividend received from joint ventures | **(2.8)** | – |
| Share of post tax (losses)/profits | **(1.0)** | 2.0 |
| **At 30 June** | | |
| **– Net assets excluding goodwill** | **0.7** | 9.3 |
| **– Goodwill** | **–** | 3.2 |
| | **0.7** | 12.5 |

**Joint ventures**

At 30 June 2009 the Group held interests in the following principal joint ventures all of which are incorporated in England and Wales, except where stated:

| Name | Year end | % shareholding | Principal activity |
|---|---|---|---|
| Kingsmead Development 2 Limited | 30 June | 50% | Building |
| Alpha Schools (Highland) Limited | 31 January | 50% | Construction and facilities management |
| Projco (St Andrews Hospital) Limited (incorporated in Scotland) | 31 March | 50% | Construction and facilities management |
| gbconsortium2 Limited | 31 March | 45%* | PPP Investment |
| Urban Vision Partnership Limited | 31 December | 30%* | Infrastructure |
| Wates Homes BR1 Limited | 31 December | 50% | Housebuilding |
| Wates Linden (Cuckfield) Limited | 31 December | 50% | Housebuilding |
| Linden Wates (Ridgewood) Limited | 31 December | 50% | Housebuilding |
| Linden and Dorchester Limited | 30 June | 50% | Housebuilding |
| Linden and Dorchester Portsmouth Limited | 30 June | 50% | Housebuilding |
| Linden Properties Western Limited | 30 June | 50% | Housebuilding |
| Linden London LLP | 30 June | 50% | Housebuilding |
| Linden Homes Eastern Newhall Limited | 30 June | 50% | Housebuilding |
| Linden St Albans LLP | 30 June | 50% | Housebuilding |
| Linden London (Hammersmith) Limited | 30 June | 50% | Affordable housing and regeneration |
| Crest/Galliford Try (Epsom) LLP | 31 October | 50% | Affordable housing and regeneration |
| Linden/Downland Graylingwell LLP | 31 March | 50% | Affordable housing and regeneration |
| Sentient Ventures LLP | 30 June | 50% | Affordable housing and regeneration |

* Under the terms of the shareholders' agreement and in relation to voting rights these investments are treated as joint ventures.

Other than noted above the Group had no significant interests in joint ventures at the year end.

a) Additions
On 1 July 2008, 1 August 2008, 1 September 2008, 5 January 2009 and 23 June 2009, the Group subscribed for £1,055,000, £735,000, £571,000, £300,000 and £2,429,000 respectively of subordinated debt in Alpha Schools (Highland) Limited.

b) Transferred to non current assets classified as held for sale
As at 30 June 2009, the Group was negotiating to sell its investment in Alpha Schools (Highland) Limited. Hence this investment has been transferred to non current assets available for sale. The sale was completed on 8 July 2009 and the proceeds amounted to £16.5 million (net of expenses of £0.3 million) which was settled in cash, giving rise to a profit of £4.4 million.

c) Disposals
On 9 February 2009 the Group sold its investment in Tricomm Housing (Portsmouth) Limited for £5.2 million (net of expenses of £0.1 million) settled in cash which gave rise to a profit on disposal of £4.2 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 12 INVESTMENTS IN JOINT VENTURES continued

In relation to the Group's interests in joint ventures, the assets, liabilities, income and expenses are shown below. As noted in note 2, during the year the Group adopted IFRIC 12, 'Service concession arrangements', which outlines an approach to account for contractual arrangements arising from entities providing public services. The adoption of this interpretation has resulted in the restatement of the accounts of some of the Group's joint venture companies. This has had no impact on the Group's operating profit but has resulted in a change in the analysis of the share of joint ventures profits/(losses) after interest and tax. The Group's share of joint ventures' revenue in 2008 increased by £31.7 million, expenses increased by £29.6 million and finance cost increased by £2.1 million. The 2008 comparatives below have been restated accordingly.

| | 2009 £m | Restated 2008 £m |
|---|---|---|
| Current assets | **172.4** | 187.8 |
| Non current assets | **21.8** | 107.2 |
| Current liabilities | **(84.1)** | (111.8) |
| Non current liabilities | **(109.4)** | (170.7) |
| | **0.7** | 12.5 |
| Amounts due from joint ventures | **45.7** | 41.4 |
| Amounts due to joint ventures | **1.0** | 3.2 |
| Revenue | **49.1** | 68.5 |
| Expenses | **(35.2)** | (59.7) |
| | **13.9** | 8.8 |
| Finance cost | **(17.6)** | (6.0) |
| Income tax | **2.7** | (0.8) |
| Share of post tax (losses)/profits from joint ventures | **(1.0)** | 2.0 |

The Group's share of unrecognised losses of joint ventures is £9.4 million (2008: £2.7 million).

As at 30 June 2009, amounts due from joint ventures of £55.4 million (2008: £41.4 million) were considered for impairment. The impairment reviews were based on future financial budgets based on past performance and expectations of market developments. The key assumptions were consistent with those applied in the goodwill impairment reviews as described in note 10. As a result of the downturn in the housing market an amount of £9.7 million as of 30 June 2009 (2008: £Nil) has been provided for balances relating to housebuilding joint ventures. The provision is all allocated to balances due in more than one year.

The Group has a 50% shareholding in Projco (St Andrews Hospital) Limited comprising 5,000 ordinary shares of £1 each. The Group has a commitment to provide a further £1,289,000 of subordinated debt by 30 June 2012.

The joint ventures have no significant contingent liabilities to which the Group is exposed. The joint ventures had no capital commitments as at 30 June 2009 (2008: £Nil).

Details of related party transactions with joint ventures are given in note 35.

## 13 AVAILABLE FOR SALE FINANCIAL ASSETS

| | 2009 £m | 2008 £m |
|---|---|---|
| At 1 July | **3.6** | 3.2 |
| Net losses on revaluation taken to equity (note 28) | **–** | (0.3) |
| Additions | **6.4** | 2.9 |
| Impairment | **(0.4)** | – |
| Disposals | **(0.2)** | (2.2) |
| **At 30 June** | **9.4** | 3.6 |

The available for sale assets relate to PPP/PFI investments and shared equity debtors in which the Group's interest depends on future property prices. Additions in the year relate to additional loans made to the investments and additional shared equity debtors. The shared equity debtors are secured by a charge over the related property.

All the available for sale investments were reviewed for impairment and a provision of £0.4 million was made in the year ended 30 June 2009 (2008: Nil). None of the remaining available for sale financial assets are either past due or impaired.

The fair value of unlisted investments is based on future expected cash flows discounted using an average rate of 8% (2008: 9%) based on the type of investment and stage of completion of the underlying assets held.

## 14 INVENTORIES

| | 2009 £m | 2008 £m |
|---|---|---|
| Materials and consumables | **0.9** | 1.7 |

No inventories have been written off during the year.

## 15 DEVELOPMENTS

| | 2009 £m | 2008 £m |
|---|---|---|
| Land | **317.0** | 426.5 |
| Work in progress | **130.6** | 183.8 |
| | **447.6** | 610.3 |

## 16 CONSTRUCTION CONTRACTS

| | 2009 £m | 2008 £m |
|---|---|---|
| Contracts in progress at balance sheet date: | | |
| Amounts recoverable on construction contracts included in trade and other receivables | **115.4** | 130.3 |
| Payments received on account on construction contracts included in trade and other payables | **(76.8)** | (110.6) |
| | **38.6** | 19.7 |

The aggregate amount of cost incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £2,068.8 million (2008: £1,905.4 million).

At 30 June 2009 retentions held by customers for contract work amounted to £32.6 million (2008: £38.5 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 17 TRADE AND OTHER RECEIVABLES

| | 2009 £m | 2008 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade receivables | **75.8** | 129.9 |
| Less: Provision for impairment of receivables | **(0.5)** | (0.6) |
| Trade receivables – net | **75.3** | 129.3 |
| Amounts recoverable on construction contracts | **115.4** | 130.3 |
| Amounts owed by joint venture undertakings | **8.8** | 18.8 |
| Other receivables | **7.7** | 14.9 |
| Prepayments and accrued income | **6.3** | 15.4 |
| | **213.5** | 308.7 |

| | 2009 £m | 2008 £m |
|---|---|---|
| Amounts falling due in more than one year: | | |
| Amounts owed by joint venture undertakings | **36.9** | 22.6 |
| Other receivables | **3.4** | 0.4 |
| | **40.3** | 23.0 |

Movements on the Group provision for impairment of trade receivable are as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| At 1 July | **(0.6)** | (0.6) |
| Provision for receivables impairment | **(0.2)** | (0.5) |
| Receivables written off during the year as uncollectable | **–** | 0.1 |
| Unused amounts reversed | **0.3** | 0.4 |
| **At 30 June** | **(0.5)** | (0.6) |

Provisions for impaired receivables have been included in 'cost of sales' in the income statement. Amounts charged to the impairment provision are generally written off, when there is no expectation of recovering additional cash.

Provisions for amounts owed by joint venture undertakings are set out in note 12. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the book value of each class of receivable mentioned above. The Group does not hold any collateral as security. None of the financial assets that are fully performing have been renegotiated in the last year.

Management believes that the concentration of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Major water industry customers accounted for in total 14% (2008: 11%) of Group revenue in the year. However, the customers involved comprise a variety of entities including those both in the public and commercial sectors. In addition, within the commercial sector each customer has an unrelated ultimate parent company.

The maturity of non-current receivables is as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| In more than one year but not more than two years | **4.6** | 1.1 |
| In more than two years but not more than five years | **12.8** | 16.1 |
| In more than five years | **22.9** | 5.8 |
| | **40.3** | 23.0 |

Of the amounts due in more than five years £0.3 million (2008: £0.3 million) is due within 19 years (2008 twenty years), £5.0 million (2008: £5.5 million) is due within six years (2008: seven years) and £17.6 million is due within 7 years. These amounts are unsecured and interest rates vary from bank base rate plus 1.75% to 10%.

## 17 TRADE AND OTHER RECEIVABLES continued

As of 30 June 2009, trade receivables of £11.1 million (2008: £32.0 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and there are no indications that they will not meet their payment obligations in respect of the trade receivables recognised in the balance sheet that are past due and unprovided. The ageing analysis of these trade receivables according to date of the invoice is as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Less than 30 days | **1.7** | 7.0 |
| Between 30 and 60 days | **2.2** | 14.0 |
| Between 60 and 90 days | **1.2** | 2.3 |
| Between 90 and 120 days | **0.6** | 1.2 |
| Greater than 120 days | **5.4** | 7.5 |
| | **11.1** | 32.0 |

As of 30 June 2009, trade receivables of £5.7 million (2008: £2.7 million) were considered for impairment. The amount provided for these balances was £0.5 million as of 30 June 2009 (2008: £0.6 million). The allocation of the provision according to the date of the invoice is as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Less than 30 days | **0.1** | 0.1 |
| Between 30 and 60 days | **–** | – |
| Between 60 and 90 days | **–** | – |
| Between 90 and 120 days | **–** | 0.1 |
| Greater than 120 days | **0.4** | 0.4 |
| | **0.5** | 0.6 |

## 18 CASH AND CASH EQUIVALENTS

| | 2009 £m | 2008 £m |
|---|---|---|
| Cash at bank and in hand | **44.6** | 133.1 |
| Short term bank deposit | **114.9** | 1.3 |
| | **159.5** | 134.4 |

The short term bank deposits above includes £6.3 million (2008: £1.3 million) which is held in escrow. The funds will become available on completion of the associated contract.

The effective interest rate received on cash balances is 1.7% (2008: 5.3%).

### Net cash/(debt)

| | 2009 £m | 2008 £m |
|---|---|---|
| Cash and cash equivalents as above | **159.5** | 134.4 |
| **Current borrowings** | | |
| Bank loan | **(11.5)** | (11.5) |
| Unsecured loan notes | **(1.5)** | (4.3) |
| **Non current borrowings** | | |
| Bank loans | **(112.4)** | (120.3) |
| Net cash/(debt) | **34.1** | (1.7) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 19 TRADE AND OTHER PAYABLES

| | 2009 £m | 2008 £m |
|---|---|---|
| Payments received on account on construction contracts | **76.8** | 110.6 |
| Trade payables | **105.1** | 135.3 |
| Development land creditors | **25.6** | 68.2 |
| Amounts due to joint venture undertakings | **1.0** | 3.2 |
| Other taxation and social security payable | **11.4** | 20.5 |
| Other payables | **14.1** | 18.3 |
| Deferred consideration on acquisitions | **0.7** | 1.6 |
| Accruals and deferred income | **311.5** | 347.2 |
| | **546.2** | 704.9 |

The deferred consideration of £0.7 million relates to the acquisition of Kendall Cross (2008: £0.8 million). The deferred consideration of £0.8 million included in 2008, relating to the acquisition of Linden Holdings plc, was settled in full during the year.

## 20 CURRENT INCOME TAX LIABILITIES

| | 2009 £m | 2008 £m |
|---|---|---|
| Current income tax liabilities | **4.6** | 10.3 |

## 21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| | Restructuring £m | Onerous leases £m | Total £m |
|---|---|---|---|
| **Current** | | | |
| At 1 July 2008 | 1.9 | 0.6 | 2.5 |
| Charged to income statement | 1.0 | – | 1.0 |
| Utilised in year | (2.7) | (0.2) | (2.9) |
| **At 30 June 2009** | **0.2** | **0.4** | **0.6** |
| **Non current** | | | |
| At 1 July 2008 | – | 0.4 | 0.4 |
| Utilised in year | – | (0.3) | (0.3) |
| **At 30 June 2009** | **–** | **0.1** | **0.1** |

### Restructuring
The restructuring provision made in the year relates to the cost of reorganising the housebuilding division following the downturn in the housing market. The provision relates to the remaining cost of redundancies. The provision is expected to be fully utilised within one year (2008: one year).

### Onerous leases
The onerous lease provision relates to Group properties which are no longer used. The provision reflects the estimated costs which will be incurred to the termination of the leases. The provision is expected to be utilised within three years (2008: four years).

## 22 FINANCIAL LIABILITIES – BORROWINGS

| Current | 2009 £m | 2008 £m |
|---|---|---|
| Bank loan – secured[(i)] | **11.5** | 11.5 |
| Unsecured – Loan notes[(ii)] | **1.5** | 4.3 |
| | **13.0** | 15.8 |

| Non current | 2009 £m | 2008 £m |
|---|---|---|
| Bank loans – secured[(i)] | **112.4** | 120.3 |

(i) The bank loans are secured by a fixed charge over certain of the Group's developments. They currently incur interest at 0.9% (2008: 0.9%) over LIBOR. The Group has entered into interest rate swaps as set out in note 25.

(ii) The unsecured loan notes are made up as follows:

(a) £0.9 million (2008: £0.9 million) of loan notes were issued in 1997 and 2002 as part of the acquisition of Midas Homes Limited and Gerald Wood Homes Limited respectively. They are redeemable in whole or in part by the holders at any time provided that 30 days notice is given of their intention to redeem the loan notes. Their interest rate is determined by reference to LIBOR and varies every three months. The final date for the redemption of these loan notes is July 2011 and July 2012 respectively. The loan notes are guaranteed by a bank.

(b) £0.6 million (2008: £3.4 million) of loan notes were issued in 2007 as part of the acquisition of Linden Holdings plc. They are redeemable in whole or in part by the holders at six monthly intervals provided that 30 days notice is given of their intention to redeem the loan notes. Their interest rate is 5% per annum. The final date for the redemption of these loan notes is March 2012. The loan notes are guaranteed by a bank.

## 23 OTHER NON CURRENT LIABILITIES

| | 2009 £m | 2008 £m |
|---|---|---|
| Development land creditors | **7.2** | 8.3 |
| Deferred consideration for acquisitions | **–** | 0.7 |
| Other payables | **3.5** | 4.8 |
| Accruals and deferred income | **0.7** | 0.7 |
| | **11.4** | 14.5 |

The deferred consideration of £0.7 million included in 2008 related to the acquisition of Kendall Cross Holding Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 24 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities. The net deferred tax position at 30 June was:

| | 2009 £m | 2008 £m |
|---|---|---|
| Deferred income tax assets | **12.0** | 10.7 |
| Deferred income tax liabilities | **(14.3)** | (17.4) |
| | **(2.3)** | (6.7) |

The movement for the year in the net deferred income tax account is as shown below:

| | 2009 £m | 2008 £m |
|---|---|---|
| **At 1 July** | **(6.7)** | (10.3) |
| Income statement credit | | |
| Current year's deferred income tax | **2.3** | 1.5 |
| Adjustment in respect of prior years | **0.3** | 0.8 |
| Credited to equity | **1.8** | 1.9 |
| On acquisition of subsidiaries | **–** | (0.6) |
| **At 30 June** | **(2.3)** | (6.7) |

Deferred income tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered.

Movements in deferred income tax assets and liabilities during the year are shown below:

| **Deferred income tax assets** | Retirement benefit obligations £m | Share based payments £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 July 2007 | 6.9 | 2.1 | 1.0 | 10.0 |
| (Charged)/credited to income statement | (2.1) | (0.1) | 1.8 | (0.4) |
| On acquisition of subsidiaries | (0.4) | – | – | (0.4) |
| Credited/(charged) to equity | 3.3 | (1.8) | – | 1.5 |
| At 1 July 2008 | 7.7 | 0.2 | 2.8 | 10.7 |
| (Charged)/credited to income statement | (1.8) | (0.1) | 1.4 | (0.5) |
| Credited to equity | 1.8 | – | – | 1.8 |
| **At 30 June 2009** | **7.7** | **0.1** | **4.2** | **12.0** |

| **Deferred income tax liabilities** | Fair value adjustments £m | Accelerated tax depreciation £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 July 2007 | (20.0) | 0.2 | (0.5) | (20.3) |
| Credited to income statement | 2.6 | 0.1 | – | 2.7 |
| On acquisition of subsidiaries | (0.2) | – | – | (0.2) |
| Credited to equity | – | – | 0.4 | 0.4 |
| **At 1 July 2008** | (17.6) | 0.3 | (0.1) | (17.4) |
| Credited/(charged) to income statement | 3.2 | (0.1) | – | 3.1 |
| **At 30 June 2009** | **(14.4)** | **0.2** | **(0.1)** | **(14.3)** |

## 25 FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group operates within financial risk policies and procedures approved by the Board. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's financial instruments principally comprise bank borrowings, cash and liquid resources, receivables and payables, and interest rate swaps that arise directly from its operations and its acquisitions.

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total shareholders equity. Net debt is calculated as total borrowings (including 'current and non current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. The Group held net cash at 30 June 2009 hence gearing was nil at that time (2008: 0.5%).

### Financial risk factors

*(a) Market risk*

(i) Foreign exchange risk

All material activities of the Group take place within the UK and consequently there is little direct exchange risk other than payments to overseas suppliers who require settlement in their currency. If there is any material foreign exchange exposure, the Group's policy is to enter into forward foreign currency contracts. The Group has no material currency exposure at 30 June 2009 (2008: Nil).

(ii) Price risk

The Group is not exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

(iii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from movement in cash and cash equivalents and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group policy is to accept a degree of interest rate risk as long as the effect of various changes in rates remains within prescribed ranges. Details of the interest rate swaps entered into by the Group are set out below.

The Group analyses its interest rate exposure on a dynamic basis. On a regular basis the Group calculates the impact on the income statement of a defined interest rate shift on the Group's borrowing position.

Based on the forecasts performed, the impact on post tax profit and equity of a 1% decrease or increase in interest rates for a year would be a maximum increase of £0.5 million (2008: £0.5 million) or decrease of £0.5 million (2008: £0.5 million), respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 25 FINANCIAL INSTRUMENTS continued

***(b) Credit risk***

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial assets, deposits and borrowings with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group has a credit risk exposure to the providers of its banking facilities. These are primarily provided by HSBC Bank plc, The Royal Bank of Scotland plc, Bank of Scotland and Barclays Bank PLC, being four of the UK's leading financial institutions. Further details of credit risk relating to trade and other receivables are disclosed in note 17. No credit limits were exceeded during the reporting period, and management does not expect any material losses from non-performance of any counterparties.

***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group finances its operations through a mixture of retained profits and bank borrowings. The contracting operations of the Group generally generate cash and the planned growth of contracting activities is budgeted to be cash generative. The housebuilding operations, however, utilise cash and the downturn in the housebuilding market may require additional borrowings in addition to retained earnings to finance the maintenance of the land bank and associated work in progress. Management monitors rolling forecasts of the Group's liquidity reserve (which comprises undrawn borrowing facilities (see below) and cash and cash equivalents (note 18) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. On a daily basis throughout the year, the bank balances or borrowings in all the Group's operating companies are aggregated into a total cash or borrowing figure in order that the Group can obtain the most advantageous interest rate.

In accordance with IAS 39, Financial instruments: recognition and measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives have been identified.

**Financial assets/(liabilities) – derivative financial assets/(liabilities)**

The fair value of interest rate swaps is detailed below:

| | Assets £m | Liabilities £m |
|---|---|---|
| **At 30 June 2009** | | |
| Non current | – | (2.8) |
| At 30 June 2008 | | |
| Non current | 0.7 | – |

The notional principal amount of the outstanding interest rate swap contracts at 30 June 2009 was £57 million (2008: £69 million). At 30 June 2009, the fixed interest rate is 5.7 per cent (2008: 5.7 per cent).

**Fair values of non-derivative financial assets and financial liabilities**

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at the prevailing interest rate. The fair value of current borrowings equals their carrying amounts as the impact of discounting is not significant.

## 25 FINANCIAL INSTRUMENTS continued

| Fair value of non current borrowings | Note | 2009 Book value £m | 2009 Fair value £m | 2008 Book value £m | 2008 Fair value £m |
|---|---|---|---|---|---|
| Long term borrowings | 22 | **112.4** | **103.4** | 120.3 | 98.0 |

**Fair value of other financial assets and financial liabilities**

Primary financial instruments held or issued to finance the Group's operations:

| | Note | 2009 Book value £m | 2009 Fair value £m | 2008 Book value £m | 2008 Fair value £m |
|---|---|---|---|---|---|
| Short term borrowings | 22 | **13.0** | **13.0** | 15.8 | 15.8 |
| Trade and other payables | 19 | **458.0** | **458.0** | 573.8 | 573.8 |
| Trade and other receivables | 17 | **247.5** | **247.5** | 316.3 | 316.3 |
| Cash and cash equivalents | 18 | **159.5** | **159.5** | 134.4 | 134.4 |
| Other non current liabilities | 23 | **11.4** | **11.4** | 14.5 | 14.5 |

Prepayments and accrued income are excluded from the trade and other receivables balances and statutory liabilities and payments on account on construction contracts are excluded from trade and other payables balances, as this analysis is required only for financial instruments.

The effective interest rate used for fair valuing long term borrowings is 3.7% (2008: 6.3%) being the prevailing interest rate at 30 June 2009.

**Maturity of financial liabilities**
The maturity profile of the carrying value of the Group's non current liabilities at 30 June was as follows:

| | 2009 Borrowings £m | 2009 Other financial liabilities £m | 2009 Total £m | 2008 Borrowings £m | 2008 Other financial liabilities £m | 2008 Total £m |
|---|---|---|---|---|---|---|
| In more than one year but not more than two years | **12.0** | **7.6** | **19.6** | 12.0 | 8.4 | 20.4 |
| In more than two years but not more than five years | **100.4** | **1.1** | **101.5** | 108.3 | 3.0 | 111.3 |
| In more than five years | **–** | **2.7** | **2.7** | – | 3.1 | 3.1 |
| | **112.4** | **11.4** | **123.8** | 120.3 | 14.5 | 134.8 |

**Borrowing facilities**
The Group had the following undrawn committed borrowing facilities available at 30 June in respect of which all conditions precedent had been met at that date:

| | 2009 Floating rate £m | 2009 Fixed rate share | 2009 Total £m | 2008 Total £m |
|---|---|---|---|---|
| Expiring within one year | **30.0** | **–** | **30.0** | 30.0 |
| Expiring in more than 2 years | **264.4** | **–** | **264.4** | 252.4 |
| | **294.4** | **–** | **294.4** | 282.4 |

The Group entered into a five year bank facility for an aggregate total amount of £450 million in February 2007 with HSBC Bank plc, The Royal Bank of Scotland plc, Bank of Scotland and Barclays Bank PLC. The facility provides working capital, development finance and bonding. £150 million of this facility is on an amortising basis to £96 million by the facility maturity date in 2012, and at 30 June 2009 stood at £126 million. The facility is subject to covenants on interest cover, minimum net assets and gearing and is secured by charges over certain developments. Overall debt levels do fluctuate throughout the year, but the Group has substantial headroom within its banking facilities and continues to operate within the covenants of those facilities.

The facilities expiring within one year are annual facilities provided by HSBC Bank plc and Barclays Bank PLC that form part of the overall facility above. These facilties are subject to review in November 2009 and January 2010 respectively. All these facilities incur commitment fees at market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 25 FINANCIAL INSTRUMENTS continued

The accounting policies for financial instruments have been applied to the line items below:

| | Loans and receivables £m | Available for sale £m | Total £m |
|---|---|---|---|
| **30 June 2009** | | | |
| **Assets as per balance sheet** | | | |
| Available for sale financial assets | – | 9.4 | 9.4 |
| Trade and other receivables | 247.5 | – | 247.5 |
| Cash and cash equivalents | 159.5 | – | 159.5 |
| **Total** | **407.0** | **9.4** | **416.4** |

| | Liabilities at fair value through the income statement £m | Other financial liabilities £m | Total £m |
|---|---|---|---|
| **Liabilities as per balance sheet** | | | |
| Derivative financial instruments | 2.8 | – | 2.8 |
| Borrowings | – | 125.4 | 125.4 |
| Trade and other payables | – | 469.4 | 469.4 |
| **Total** | **2.8** | **594.8** | **597.6** |

| | Loans and receivables £m | Assets at fair value through the income statement £m | Available for sale £m | Total £m |
|---|---|---|---|---|
| **30 June 2008** | | | | |
| **Assets as per balance sheet** | | | | |
| Available for sale financial assets | – | – | 3.6 | 3.6 |
| Derivative financial instruments | – | 0.7 | – | 0.7 |
| Trade and other receivables | 316.3 | – | – | 316.3 |
| Cash and cash equivalents | 134.4 | – | – | 134.4 |
| Total | 450.7 | 0.7 | 3.6 | 455.0 |

| | Other financial liabilities £m | Total £m |
|---|---|---|
| **Liabilities as per balance sheet** | | |
| Borrowings | 136.1 | 136.1 |
| Trade and other payables | 588.3 | 588.3 |
| Total | 724.4 | 724.4 |

## 26 CALLED UP SHARE CAPITAL

| Authorised | 2009 £m | 2008 £m |
|---|---|---|
| 505,000,000 ordinary shares of 5 pence each | **25.3** | 25.3 |

| Issued and fully paid | 2009 shares | 2009 £m | 2008 shares | 2008 £m |
|---|---|---|---|---|
| **Ordinary shares of 5 pence each** | | | | |
| **At 1 July** | **377,604,442** | **18.9** | 376,513,101 | 18.8 |
| Allotted under share option schemes | **162,331** | **–** | 1,091,341 | 0.1 |
| **At 30 June** | **377,766,773** | **18.9** | 377,604,442 | 18.9 |

At 30 June 2009 the total number of shares outstanding under the SAYE share option scheme was 5,790,788 and under the long term incentive plans was 7,537,868 as detailed below:

SAYE share option scheme

| Shares under option | Year of grant | Exercise price per share | Exercise period ending |
|---|---|---|---|
| 1,050,417 | 2006 | 68.5p | 31.07.09 |
| 676,906 | 2006 | 68.5p | 31.07.11 |
| 1,290,320 | 2007 | 102.0p | 30.06.10 |
| 1,334,121 | 2007 | 102.0p | 30.06.12 |
| 764,950 | 2008 | 126.0p | 30.06.11 |
| 674,074 | 2008 | 126.0p | 30.06.13 |
| 5,790,788 | | | |

Long term incentive plans

| Shares awarded | Year of grant | Award price | Vesting date |
|---|---|---|---|
| 113,000 | 2007 | 177.0p | 08.03.10 |
| 1,133,376 | 2008 | 144.5p | 10.09.10 |
| 6,291,492 | 2009 | 37.5p | 10.09.11 |
| 7,537,868 | | | |

## 27 SHARE BASED PAYMENTS

The Company operates performance related share incentive plans for executives, details of which are set out in the Remuneration Report. The Company also operates savings related option schemes ("SAYE"). The total charge for the year relating to employee share based payment plans was £1.4 million (2008: £1.4 million), all of which related to equity settled share based payment transactions. After deferred tax, the total charge was £1.5 million (2008: £1.5 million).

**Savings related share options**

The Company operates an HM Revenue and Customs approved savings related option scheme ("SAYE") under which employees are granted an option to purchase ordinary shares in the Company at up to 20% less than the market price at grant, in either three or five years' time, dependent on their entering into a contract to make monthly contributions into a savings account over the relevant period. These funds are used to fund the option exercise. This scheme is open to all employees. No performance criteria are applied to the exercise of SAYE options.

The options were valued using the binomial option-pricing model. The fair value per option granted, subsequent to November 2002, and the assumptions used in the calculation are as follows:

| Grant date | Share price at grant date pence | Exercise price pence | Expected volatility | Option life years | Risk free rate | Dividend yield | Employee turnover before vesting | Fair value per option |
|---|---|---|---|---|---|---|---|---|
| 01.02.06 | 90.0p | 68.5p | 31% | 3 | 4.3% | 2.3% | 10% | 31.2p |
| 01.02.06 | 90.0p | 68.5p | 37% | 5 | 4.3% | 2.3% | 10% | 37.3p |
| 01.01.07 | 150.0p | 102.0p | 26% | 3 | 4.9% | 1.7% | 10% | 59.7p |
| 01.01.07 | 150.0p | 102.0p | 33% | 5 | 4.8% | 1.7% | 10% | 69.2p |
| 01.01.08 | 126.75p | 126.0p | 31% | 3 | 4.6% | 2.4% | 10% | 30.8p |
| 01.01.08 | 126.75p | 126.0p | 31% | 5 | 4.6% | 2.4% | 10% | 37.5p |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 27 SHARE BASED PAYMENTS continued

The expected volatility is based on historical volatility in the movement in the share price over the last three or five years up to the date of grant depending on the option life. The expected life is the average expected period to exercise. The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of savings related share awards over the year to 30 June 2009 is shown below:

| | 2009 Number | 2009 Weighted average exercise price pence | 2008 Number | 2008 Weighted average exercise price pence |
|---|---|---|---|---|
| Outstanding at 1 July | **8,494,084** | **96.9p** | 8,881,332 | 78.9p |
| Granted | **–** | **–** | 2,572,894 | 126.0p |
| Forfeited | **(315,860)** | **103.7p** | (486,758) | 89.8p |
| Cancelled | **(2,065,255)** | **102.1p** | (1,382,043) | 98.9p |
| Expired | **(159,850)** | **56.2p** | – | – |
| Exercised | **(162,331)** | **18.0p** | (1,091,341) | 19.8p |
| Outstanding at 30 June | **5,790,788** | **98.0p** | 8,494,084 | 96.9p |
| Exercisable at 30 June | **1,050,417** | **68.5p** | 235,330 | 18.0p |

The weighted average fair value of awards granted during the year was Nil (2008: 33.7p). The weighted average share price at the date of exercise was 42.1p (2008: 47.0p). The weighted average remaining contractual life is 1 year 11 months (2008: 2 years 10 months).

**Performance related long term incentive plans**
The Company operates performance related share incentive plans for executives, details of which are set out in the Remuneration Report. The awards that vest are satisfied by the transfer of shares for no consideration.

The options were valued using a Monte Carlo model. The fair value per option granted, subsequent to November 2002, and the assumptions used in the calculation are as follows:

| Grant date | Award price at grant date | Vesting period/ Option life months | Risk free rate | Dividend yield | Fair value per option |
|---|---|---|---|---|---|
| 30.10.06 | 126.0p | 36 | 5.0% | 2.0% | 73.0p |
| 08.03.07 | 177.0p | 36 | 5.2% | 1.5% | 154.3p |
| 10.09.07 | 144.5p | 36 | 5.0% | 2.1% | 71.2p |
| 10.03.09 | 37.5p | 36 | 1.7% | 2.5% | 10.0p |

The expected volatility is based on historical volatility in the movement in the share price of the Company and its comparator group and the correlations between them over the last three years. The expected life is the average expected period to exercise. The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of performance related share awards over the year to 30 June is shown below:

| | 2009 Number | 2008 Number |
|---|---|---|
| Outstanding at 1 July | **3,325,750** | 3,105,400 |
| Granted | **6,291,492** | 1,384,550 |
| Cancelled | **(708,147)** | – |
| Forfeited | **(1,146,374)** | (265,200) |
| Exercised | **(224,853)** | (899,000) |
| Outstanding at 30 June | **7,537,868** | 3,325,750 |
| Exercisable at 30 June | **–** | – |

The weighted average fair value of awards granted during the year was 10.0p (2008: 71.2p). The weighted average share price at the date of exercise was 59.75p (2007: 59.0p). The weighted average remaining contractual life is Nil as the shares are exercised on the day that they vest (2008: Nil).

## 28 SHARE PREMIUM AND OTHER RESERVES

| | Share premium £m | Other reserves £m |
|---|---|---|
| At 1 July 2007 | 190.6 | 6.7 |
| Premium on the issue of shares under share based payments | 0.2 | – |
| Movement in fair value of available for sale financial assets | – | (0.3) |
| Released on disposal of available for sale financial assets | – | (1.1) |
| **At 1 July 2008 and June 2009** | **190.8** | **5.3** |

The other reserve relates to a merger reserve amounting to £4.7 million (2008: £4.7 million) and the movement on available for sale financial assets amounting to £0.6 million (2008: £0.6 million).

## 29 RETAINED EARNINGS

| | £m |
|---|---|
| At 1 July 2007 | 90.5 |
| Profit for the year | 42.5 |
| Dividends paid | (11.7) |
| Share based payments | 1.4 |
| Purchase of own shares | (2.5) |
| Actuarial losses recognised in the retirement benefit obligations | (11.8) |
| Deferred tax on movements in equity | 1.9 |
| At 1 July 2008 | 110.3 |
| Loss for the year | (17.8) |
| Dividends paid | (9.6) |
| Share based payments | 1.4 |
| Actuarial losses recognised in the retirement benefit obligations | (6.5) |
| Deferred tax on movements in equity | 1.8 |
| **At 30 June 2009** | **79.6** |

The cumulative amount of goodwill arising on acquisition and written off directly against reserves is £9.5 million (2008: £9.5 million).

At 30 June 2009, the Galliford Try Employee Share Trust held 2,084,170 (2008: 4,562,415) shares. The nominal value of the shares held is £0.1 million (2008: £0.2 million). No shares were acquired during the year (2008: £2.5 million). The cost of funding and administering the Trust is charged to the profit and loss account of the Company in the period to which it relates. The market value of the shares at 30 June 2009 was £1.0 million (2008: £1.7 million). No shareholders (2008: None) have waived their rights to dividends.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 30 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total shareholders' equity £m |
|---|---|---|---|---|---|
| At 1 July 2007 | 18.8 | 190.6 | 6.7 | 90.5 | 306.6 |
| Profit for the year | – | – | – | 42.5 | 42.5 |
| Dividends | – | – | – | (11.7) | (11.7) |
| Proceeds from shares issued | 0.1 | 0.2 | – | – | 0.3 |
| Purchase of own shares | – | – | – | (2.5) | (2.5) |
| Share based payments | – | – | – | 1.4 | 1.4 |
| Actuarial losses recognised in retirement benefit obligations | – | – | – | (11.8) | (11.8) |
| Movement on fair value of available for sale financial assets | – | – | (0.3) | – | (0.3) |
| Released on disposal of available for sale financial assets | – | – | (1.1) | – | (1.1) |
| Deferred tax on movements in equity | – | – | – | 1.9 | 1.9 |
| At 1 July 2008 | 18.9 | 190.8 | 5.3 | 110.3 | 325.3 |
| Loss for the year | – | – | – | (17.8) | (17.8) |
| Dividends | – | – | – | (9.6) | (9.6) |
| Share based payments | – | – | – | 1.4 | 1.4 |
| Actuarial losses recognised in retirement benefit obligations | – | – | – | (6.5) | (6.5) |
| Deferred tax on movements in equity | – | – | – | 1.8 | 1.8 |
| **At 30 June 2009** | **18.9** | **190.8** | **5.3** | **79.6** | **294.6** |

## 31 CASH FLOWS FROM OPERATING ACTIVITIES

| | 2009 £m | 2008 £m |
|---|---|---|
| **Cash generated from operations** | | |
| **Continuing operations** | | |
| (Loss)/profit for the year | (17.8) | 42.5 |
| Adjustments for: | | |
| Profit on sale of investments | (4.2) | (2.8) |
| Income tax | (9.1) | 17.8 |
| Depreciation | 2.4 | 2.1 |
| Other gains and losses | 0.4 | – |
| Amortisation of intangible assets | 2.0 | 2.0 |
| Share based payments | 1.4 | 1.4 |
| Profit on sale of property, plant and equipment | (0.1) | (0.1) |
| Finance income | (3.8) | (6.5) |
| Finance cost | 11.2 | 17.3 |
| Share of post tax losses/(profits) from joint ventures | 1.0 | (2.0) |
| Additions to available for sale financial assets | (6.4) | – |
| Movement in retirement benefit obligations | (7.2) | (7.3) |
| (Decrease)/increase in provisions for liabilities and charges | (2.2) | 0.4 |
| Changes in working capital (excluding the effects of the acquisition of subsidiaries) | (32.4) | 64.8 |
| Decrease/(increase) in inventories | 0.8 | (1.1) |
| Decrease in developments | 162.7 | 94.6 |
| Decrease/(increase) in trade and other receivables | 79.1 | (41.5) |
| (Decrease)/increase in payables | (162.8) | 32.8 |
| Cash generated from continuing operations | 47.4 | 149.6 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 32 RETIREMENT BENEFIT OBLIGATIONS

The Group's principal funded pension scheme is the Galliford Try Final Salary Pension Scheme (based on final pensionable salary) with assets held in separate trustee administered funds which was closed to all future service accrual on 31 March 2007. All staff employees are entitled to join the Galliford Try Pension Scheme, a defined contribution scheme established as a stakeholder plan, with a Company contribution on a scale dependent on the employee's age and the amount they choose to contribute.

Pension costs for the schemes were as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Defined benefit schemes – Expense/(income) recognised in the income statement | **0.8** | (0.9) |
| Defined contribution schemes | **6.9** | 7.0 |
| Total included within employee benefit expenses (note 3) | **7.7** | 6.1 |

**Defined benefit schemes**

The most recent valuation of the Galliford Try Final Salary Pension Scheme is as at 30 June 2006, using the projected unit method with a three year control period. The assumptions used which have the most significant effect on the results of the valuation were the investment return, which was assumed to be 5.2% per annum on pre-retirement assets and 5.2% on post-retirement assets, and the rate of increase in pensionable salaries, which was assumed to be 5.0% per annum. The valuation showed that the market value of the scheme's assets was £104.1 million and that those assets represented 67% of the value of the benefits that had accrued to members after allowing for the expected future increases in pensionable salaries.

The next valuation of the Galliford Try Final Salary pension Scheme is due based on data as at 1 July 2009. The valuation is currently being carried out by the Scheme actuary.

The Galliford Group Special Scheme is funded and provides benefits based on final pensionable salaries. The most recent actuarial valuation of the Scheme was prepared using the attained age method as at 1 April 2007. The assumptions used which had the most significant effect on the results of the valuation were the investment return, which was assumed to be 5.5% per annum on pre-retirement assets and 4.5% for post-retirement assets, and the rate of increase in pensionable salaries, which was assumed to be 5.1% per annum. The valuation showed that the market value of the scheme's assets was £4.1 million and that those assets represented 76% of the value of the benefits that had accrued to members after allowing for the expected future increases in pensionable salaries.

In November 2007, the Group acquired Kendall Cross Holdings Limited, which had a defined benefit pension scheme. The scheme was closed to new members and to future accrual for existing members prior to the date of the acquisition by Galliford Try plc. The most recent actuarial valuation of the Scheme was prepared using the projected unit method as at 14 November 2006. The assumptions used which had the most significant effect on the results of the valuation were the investment return, which was assumed to be 5.0% per annum on pre-retirement assets and 4.5% for post-retirement assets. The rate of increase in pensionable salaries was assumed to be Nil. The valuation showed that the market value of the scheme's assets was £4.0 million and that those assets represented 80% of the value of the benefits that had accrued to members after allowing for the expected future increases in pensionable salaries. Prior to its acquisition by the Group, Kendall Cross Holdings Limited made deficit payments of £1.2 million into the fund to eliminate the deficit.

## 32 RETIREMENT BENEFIT OBLIGATIONS continued

The valuation of the Group's pension schemes have been updated to 30 June 2009 and all information is consolidated for disclosure purposes below. The principal actuarial assumptions used in the calculation of the disclosure items are as follows:

| | 2009 | 2008 |
|---|---|---|
| Rate of increase in pensionable salaries | n/a | n/a |
| Rate of increase in pensions in payment | 3.45% | 3.85% |
| Discount rate | 6.45% | 6.30% |
| Inflation assumption | 3.55% | 4.00% |

The assumptions for mortality are based on actuarial table PXA92 medium cohort (2008: PXA92 medium cohort). The average life expectancy at 65 for future male pensioners is 24.0 years (2008: 23.9 years) and for current male pensioners is 22.9 years (2008: 22.8 years).

The fair value of the assets, long term rate of return expected and present value of the obligations at 30 June of the Group's defined benefit arrangements are as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Return | Value £m | | Return | Value £m | |
| Equities | 8.10% | 52.6 | 43% | 8.65% | 68.3 | 51% |
| Gilts | 4.10% | 40.1 | 33% | 5.15% | 48.0 | 36% |
| Bonds | 6.45% | 24.8 | 20% | 6.30% | 11.3 | 9% |
| Cash and other | 5.55% | 4.5 | 4% | 5.80% | 6.0 | 4% |
| | | 122.0 | 100% | | 133.6 | 100% |
| Present value of defined benefit obligations | | (149.5) | | | (161.0) | |
| Deficit in scheme recognised as non-current liability | | (27.5) | | | (27.4) | |

### Sensitivity analysis of scheme liabilities

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions is set out below.

| | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | Increase/decrease by 0.1% | Increase/decrease by £2.6 million |
| Rate of inflation | Increase/decrease by 0.1% | Increase/decrease by £2.2 million |
| Increase in pension payments | Increase/decrease by 0.05% | Increase/decrease by £0.5 million |
| Life expectancy | Increase/decrease by one year | Increase/decrease by £2.9 million |

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments, which is based on more realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension scheme.

The amounts recognised in the income statement are as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Finance costs | 9.8 | 8.9 |
| Expected return on plan assets | (9.0) | (9.8) |
| Net finance costs/(income) | 0.8 | (0.9) |
| Expense/(income) recognised in the income statement | 0.8 | (0.9) |

The actual return on plan assets was a charge of £10.3 million (2008: charge £6.0 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 32 RETIREMENT BENEFIT OBLIGATIONS continued

The amounts recognised in the statement of recognised income and expense are as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Total amount of actuarial losses | **(6.5)** | (11.8) |
| Cumulative actuarial losses | **(34.7)** | (28.2) |

| **Movement in present value of defined benefit obligations** | 2009 £m | 2008 £m |
|---|---|---|
| At 1 July | **161.0** | 156.4 |
| Interest cost | **9.8** | 8.9 |
| Experience gains | **1.6** | (0.4) |
| Impact of change in assumptions | **(14.4)** | (3.5) |
| Benefit payments | **(8.5)** | (4.3) |
| Acquisition of subsidiary undertaking | **–** | 3.9 |
| **At 30 June** | **149.5** | 161.0 |

| **Movement in fair value of scheme assets** | 2009 £m | 2008 £m |
|---|---|---|
| At 1 July | **133.6** | 131.4 |
| Expected return on plan assets | **9.0** | 9.8 |
| Actual return less expected return on Scheme assets | **(19.3)** | (15.8) |
| Employer contributions | **7.2** | 7.3 |
| Benefit payments | **(8.5)** | (4.3) |
| Acquisition of subsidiary undertaking | **–** | 5.2 |
| **At 30 June** | **122.0** | 133.6 |

Of the total charge for all schemes £3.7 million (2008: £3.6 million) and £4.0 million (2008: £2.5 million) were included, respectively, within cost of sales and administrative expenses.

Following the closure of the Scheme to future service accrual, the Company agreed with the Trustees to make a one-off lump sum contribution of £10 million, which was paid during the year ended 30 June 2007, to be followed by annual deficit funding payments of £7 million per annum until 31 July 2013.

| **Details of experience gains and losses in the year:** | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets: | | | | | |
| Amount £m | **(19.3)** | (15.8) | 2.4 | 6.4 | 6.2 |
| Percentage of assets | **(16)** | (11) | 2 | 6 | 7 |
| Experience gains and losses on Scheme liabilities: | | | | | |
| Amount £m | **(1.6)** | 0.4 | 1.9 | 5.2 | (2.5) |
| Percentage of present value of defined benefit obligations | **(1)** | – | 1 | 3 | (2) |
| Total amount recognised in statement of recognised income and expense: | | | | | |
| Amount £m | **(6.5)** | (11.8) | 3.9 | (5.2) | (15.2) |
| Percentage of present value of liabilities | **(4)** | (7) | 2 | (3) | (11) |

## 33 FINANCIAL AND CAPITAL COMMITMENTS

| | 2009 £m | 2008 £m |
|---|---|---|
| Commitments for capital expenditure in subsidiaries | **–** | 1.5 |
| Commitments for subordinated loan stock in available for sale investments | **0.6** | 0.6 |
| Commitments for equity and subordinated debt in joint ventures | **1.3** | 6.4 |
| | **1.9** | 8.5 |

Galliford Try plc, together with certain of its subsidiaries, has entered into non-cancellable contracts for the operational leasing of land and buildings and plant and machinery. The leases have various terms, escalation clauses and renewal rights. The maximum commitments for payments under these contracts are as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Property £m** | **Vehicles, plant and equipment £m** | Property £m | Vehicles, plant and equipment £m |
| Amounts due: | | | | |
| Within one year | **3.7** | **4.2** | 4.3 | 5.7 |
| Later than one year and less than five years | **12.8** | **4.0** | 13.9 | 5.3 |
| After five years | **24.5** | **–** | 24.9 | – |
| | **41.0** | **8.2** | 43.1 | 11.0 |

Galliford Try plc, together with certain of its subsidiaries, has entered into arrangements with HSBC Bank plc, The Royal Bank of Scotland plc, Bank of Scotland and Barclays Bank PLC to guarantee the borrowings of Group companies. Fixed charges have been given to these banks over certain of the Group's developments.

## 34 GUARANTEES AND CONTINGENT LIABILITIES

Galliford Try plc has entered into financial guarantees and counter indemnities in respect of bank and performance bonds issued on behalf of Group undertakings, including joint arrangements and joint ventures, in the normal course of business amounting to £113.5 million (2008: £117.7 million).

Disputes arise in the normal course of business, some of which lead to litigation or arbitration procedures. The directors make proper provision in the financial statements when they believe a liability exists. Whilst the outcome of disputes and arbitration is never certain, the directors believe that the resolution of all existing actions will not have a material adverse effect on the Group's financial position.

As explained in the Corporate Governance Report, the Group is awaiting a decision from the Office of Fair Trading in respect of allegations of breaches of the 1998 Competition Act. No provision has been made for any potential fine in relation to this matter, as the result of the investigation is not yet known and any potential fine is therefore not quantifiable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

## 35 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not included within this note. Transactions between the Group and its joint ventures and jointly controlled operations are disclosed as follows:

| | Sales to related parties | | Purchases from related parties | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m |
| **Trading transactions** | | | | | | | | |
| Joint ventures | **38.2** | 28.2 | **0.1** | – | **7.7** | 8.4 | **1.0** | – |
| Jointly controlled operations | **118.6** | 77.3 | **0.5** | 10.5 | **1.9** | 3.5 | **–** | – |

| | Interest income from loans to related parties | | Loans to related parties | | Loans from related parties | | Injection of equity funding | |
|---|---|---|---|---|---|---|---|---|
| | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m |
| **Non-trading transactions** | | | | | | | | |
| Joint ventures | **2.2** | 1.3 | **38.0** | 33.0 | **–** | 3.2 | **5.1** | 4.5 |
| Jointly controlled operations | **–** | – | **–** | – | **–** | 1.3 | **–** | – |

Services are sold to related parties based on terms that would be available to unrelated third parties. Receivables are due within seven years (2008: seven years) and are unsecured and interest rates vary from bank base rate plus 1.75% to 10%. Payables are due within one year (2008: one year) and are interest free.

The Company has provided performance guarantees in respect of certain operational contracts entered into between joint ventures and a Group undertaking.

The Company has entered into a financial guarantee in respect of its joint venture Crest/Galliford Try (Epsom) LLP. The maximum amount payable under the terms of this guarantee is £13.75 million. Key management remuneration and directors' emoluments are disclosed in note 3.

Shareholders are, by way of a separate resolution to be proposed at the Annual General Meeting, being asked to approve a proposed purchase, by a son of Frank Nelson, an executive director of the Company, of a property being developed and sold by Linden Limited, a subsidiary of the Group. The property is to be purchased for his son's own residential use for a consideration of £356,000 and is situated in Surrey. The directors have received written confirmation from independent valuers stating that the price payable for this property represents a fair market value.

## 36 POST BALANCE SHEET EVENT

On 10 September 2009, the Group announced a rights issue to raise approximately £119 million, net of expenses, to recommence the expansion of its housebuilding business.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GALLIFORD TRY PLC

We have audited the parent company financial statements of Galliford Try plc for the year ended 30 June 2009 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 33, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

**Opinion on financial statements**
In our opinion the parent company financial statements:

> give a true and fair view of the state of the Company's affairs as at 30 June 2009;
> have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
> have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
> the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept 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 and the part of the Directors' Remuneration Report to be audited 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.

**Other matter**
We have reported separately on the Group financial statements of Galliford Try plc for the year ended 30 June 2009.

S R Wootten (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
10 September 2009

# COMPANY BALANCE SHEET
# AT 30 JUNE 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 3 | **191.2** | 189.9 |
| **Current assets** | | | |
| Debtors | 4 | **21.2** | 18.0 |
| Cash at bank and in hand | | **273.6** | 252.9 |
| | | **294.8** | 270.9 |
| **Creditors: amounts falling due within one year** | 5 | **(66.3)** | (48.6) |
| **Net current assets** | | **228.5** | 222.3 |
| Total assets less current liabilities | | **419.7** | 412.2 |
| **Creditors: amounts falling due after more than one year** | 6 | **(115.2)** | (120.3) |
| **Net assets** | | **304.5** | 291.9 |
| **Capital and reserves** | | | |
| Called up share capital | 7 | **18.9** | 18.9 |
| Share premium account | 8 | **190.8** | 190.8 |
| Merger reserve | 8 | **3.0** | 3.0 |
| Profit and loss account | 8 | **91.8** | 79.2 |
| **Total equity shareholders' funds** | 9 | **304.5** | 291.9 |

The notes on pages 89 to 100 are an integral part of these financial statements.

The financial statements on pages 88 to 100 were approved by the board on 10 September 2009 and signed on its behalf by:

**Greg Fitzgerald**
Chief Executive

**Frank Nelson**
Finance Director

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1 STATEMENT OF ACCOUNTING POLICIES

**Basis of accounting**

These financial statements are prepared on the going concern basis, under the historical cost convention except for the valuation of share based payments, financial instruments and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. The principal accounting policies, which have been applied consistently, except for any changes arising from the adoption of new accounting standards, are set out below. As permitted by section 408 of the Companies Act 2006 the Company has not presented its own profit and loss account.

Under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its consolidated financial statements, which include the Company and present a cash flow statement, are publicly available.

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions with entities that are part of the Galliford Try plc Group.

There are no recognised gains and losses other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

**Critical accounting estimates and judgements**

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Material estimates and assumptions are made in particular with regards to establishing the policy relating to the retirement benefit obligations valuation.

In determining the valuation of defined benefit schemes assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

> expected return on plan assets
> inflation rate
> mortality
> discount rate
> salary and pension increases

Details of the assumptions used are included in note 10.

**Recent accounting developments**

The following standards, amendments and interpretations have been published and have been adopted by the Company but have no material impact on the results.

The following interpretations and amendments have been published:

> Amendment to FRS 8, Related party transactions has been adopted but does not have a significant impact on the Company's financial statements.
> Improvements to FRSs (effective for accounting periods on or after 1 January 2009). The Company will adopt these improvements with effect from 1 July 2009 but this is unlikely to have a significant impact on the Company's financial statements.
> Amendment to FRS 20, Share based payments on vesting conditions and cancellations (effective for accounting periods on or after 1 January 2009). The Company will adopt these improvements with effect from 1 July 2009 but unlikely to have a significant impact on the Company's financial statements.
> Amendment to FRS 25, Financial Instruments: presentation on puttable financial instruments and obligations arising on liquidation (effective for accounting periods on or after 1 January 2010). The Company will adopt these improvements with effect from 1 July 2010 but this will have no impact on the Company's financial statements.

**Money market deposits**

Money market deposits are stated at cost. All income from these investments is included in the profit and loss account as interest receivable and similar income.

**Interest-bearing borrowings**

Interest-bearing bank loans and overdrafts are initially recorded at the value of the amount received, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 1 STATEMENT OF ACCOUNTING POLICIES continued

### Fixed asset investments and impairment
The book value of fixed asset investments is recorded at cost less any impairment.

### Financial instruments
Interest rate swaps are used to manage the Company's interest rate exposure. The interest payable or receivable in respect of these swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are revalued to fair value at the year end with the movement being recognised immediately in the profit and loss account.

### Accounting for Employee Share Ownership Plan
Own shares held by the Galliford Try Employee Share Trust ("The Trust") are shown, at cost less any permanent diminution in value, as a deduction from the profit and loss account reserve. The charge made to the profit and loss account for employee share awards and options is based on the fair value of the award at the date of grant spread over the performance period.

### Share based payments
The Company operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the profit and loss account. Where options have been granted to employees of subsidiary companies the associated expense has been credited to investments. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions such as growth in earnings per share. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account or investments as appropriate, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### Debtors
Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (typically more than 30 days overdue) are considered indicators that the trade debtor is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision, and the amount of the loss is recognised in the profit and loss account.

When a trade debtor is uncollectible, it is written off against the impairment provision for debtors. Subsequent recoveries of amounts previously written off are credited in the profit and loss account. Short term debtors do not carry any interest and are stated at their amortised cost as reduced by appropriate impairment for estimated irrecoverable amounts.

### Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

### Retirement benefit obligations
The Group operates a defined benefit pension scheme, the assets of which are held separately from those of the Company in independently administered funds.

As the Company is unable to identify its share of the assets and liabilities of the Group scheme, it accounts for contributions as if they were to a defined contribution pension scheme.

### Dividend policy
Final dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are accounted for when paid.

## 2 PROFIT BEFORE TAXATION

### (i) Employees

Average monthly number of people (including executive directors) employed:

| | 2009 | 2008 |
|---|---|---|
| Directors | **6** | 6 |

The directors received all of their remuneration, as disclosed in the Remuneration Report, from Galliford Try plc.

| (ii) Staff costs | 2009 £m | 2008 £m |
|---|---|---|
| Wages and salaries | **1.2** | 1.7 |
| Social security costs | **0.2** | 0.2 |
| Pension costs | **0.2** | 0.2 |
| Share based payments | **0.1** | – |
| | **1.7** | 2.1 |

The schedule VI requirements for directors' remuneration are included within the Remuneration Report.

### (iii) Auditors' remuneration

The fee payable to the Company's auditors for the parent company is £0.1 million (2008: £0.1 million).

### (iv) Dividends

For details of equity dividends see note 7 of the Group's financial statements on page 61.

## 3 INVESTMENTS

| | Shares in Group undertakings £m |
|---|---|
| **Cost** | |
| At 1 July 2008 | 191.5 |
| Additions | 1.3 |
| **At 30 June 2009** | **192.8** |
| Aggregate impairment | |
| **At 1 July 2008 and 30 June 2009** | **1.6** |
| **Net book value** | |
| **At 30 June 2009** | **191.2** |
| At 30 June 2008 | 189.9 |

The principal subsidiary companies are set out in note 15 on page 100.

Additions relate to the charge for share based payments allocated to subsidiary undertakings. The carrying value of investments has been reviewed and the directors are satisfied that there is no impairment.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 4 DEBTORS

| | 2009 £m | 2008 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed by subsidiary undertakings | **19.9** | 16.7 |
| Taxation recoverable | **1.2** | 0.5 |
| | **21.1** | 17.2 |
| **Amounts falling due after more than one year** | | |
| Other debtors | **–** | 0.7 |
| Deferred taxation | **0.1** | 0.1 |
| | **21.2** | 18.0 |

Amounts owed by subsidiary undertakings are unsecured, have no interest chargeable and are repayable on demand. The carrying value of debtors approximates to their fair value.

The deferred tax asset recognised in the financial statements is calculated on the liability method at 28 per cent (2008: 28 per cent) and comprises:

| | 2009 £m | 2008 £m |
|---|---|---|
| Tax effect of timing differences due to: | | |
| Share based payments | **0.1** | 0.1 |

There was no movement in the deferred tax asset in the year (2008: £Nil).

## 5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2009 £m | 2008 £m |
|---|---|---|
| Bank loans | **11.5** | 11.5 |
| Unsecured loan notes | **1.5** | 4.3 |
| Amounts owed to subsidiary undertakings | **52.4** | 31.9 |
| Other creditors | **–** | 0.8 |
| Accruals and deferred income | **0.9** | 0.1 |
| | **66.3** | 48.6 |

The unsecured loan notes consist of two types of loan notes, as follows:

(i) £0.9 million (2008: £0.9 million) of loan notes were issued in 1997 and 2002 as part of the acquisition of Midas Homes Limited and Gerald Wood Homes Limited respectively. They are redeemable in whole or in part by the holders at any time provided that 30 days notice is given of their intention to redeem the loan notes. Their interest rate is determined by reference to LIBOR and varies every three months. The final dates for the redemption of these loan notes are July 2011 and July 2012 respectively. The loan notes are guaranteed by a bank.

(ii) £0.6 million (2008: £3.4 million) of loan notes were issued in 2007 as part of the acquisition of Linden Holdings plc. They are redeemable in whole or in part by the holders at six monthly intervals provided that 30 days notice is given of their intention to redeem the loan notes. Their interest rate is 5 per cent per annum. The final date for the redemption of these loan notes is March 2012. The loan notes are guaranteed by a bank.

Amounts owed to subsidiary undertakings are unsecured, have no interest chargeable and are repayable on demand.

## 6 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2009 £m | 2008 £m |
|---|---|---|
| Bank loans | **112.4** | 120.3 |
| Derivative financial liabilities | **2.8** | – |
| | **115.2** | 120.3 |

The bank loans above are all denominated in sterling and have an effective interest rate of LIBOR plus 0.9 per cent (2008: 0.9 per cent) and the amounts due after one year are repayable within 5 years of the balance sheet date.

## 7 CALLED UP SHARE CAPITAL

| **Authorised** | 2009 £m | 2008 £m |
|---|---|---|
| 505,000,000 ordinary shares of 5 pence each | **25.3** | 25.3 |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Issued and fully paid** | **shares** | **£m** | shares | £m |
| **Ordinary shares of 5 pence each** | | | | |
| **At 1 July** | **377,604,442** | **18.9** | 376,513,101 | 18.8 |
| Allotted under share option schemes | **162,331** | **–** | 1,091,341 | 0.1 |
| **At 30 June** | **377,766,773** | **18.9** | 377,604,442 | 18.9 |

At 30 June 2009 the total number of shares outstanding under the SAYE share option scheme was 5,790,788 and under the long term incentive plans was 7,537,868 as detailed below:

| SAYE share option scheme | | | |
|---|---|---|---|
| Shares under option | Year of grant | Exercise price per share | Exercise period ending |
| 1,050,417 | 2006 | 68.5p | 31.07.09 |
| 676,906 | 2006 | 68.5p | 31.07.11 |
| 1,290,320 | 2007 | 102.0p | 30.06.10 |
| 1,334,121 | 2007 | 102.0p | 30.06.12 |
| 764,950 | 2008 | 126.0p | 30.06.11 |
| 674,074 | 2008 | 126.0p | 30.06.13 |
| 5,790,788 | | | |

| Long term incentive plans | | | |
|---|---|---|---|
| Shares awarded | Year of grant | Award price | Vesting date |
| 113,000 | 2007 | 177.0p | 08.03.10 |
| 1,133,376 | 2008 | 144.5p | 10.09.10 |
| 6,291,492 | 2009 | 37.5p | 10.09.11 |
| 7,537,868 | | | |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 8 SHARE PREMIUM AND RESERVES

| | Share premium £m | Merger reserve £m | Profit and loss £m | Total £m |
|---|---|---|---|---|
| At 1 July 2008 | 190.8 | 3.0 | 79.2 | 273.0 |
| Profit for the financial year | – | – | 22.1 | 22.1 |
| Dividend | – | – | (9.6) | (9.6) |
| Share based payments | – | – | 0.1 | 0.1 |
| **At 30 June 2009** | **190.8** | **3.0** | **91.8** | **285.6** |

At 30 June 2009, the Galliford Try Employee Share Trust held 2,084,170 (2008: 4,562,415) shares. The nominal value of the shares held is £0.1 million (2008: £0.2 million). No shares were acquired during the year (2008: £2.5 million). The cost of funding and administering the Trust is charged to the profit and loss account of the Company in the period to which it relates. The market value of the shares at 30 June 2009 was £1.0 million (2008: £1.7 million). No shareholders (2008: None) have waived their rights to dividends.

## 9 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

| | 2009 £m | 2008 £m |
|---|---|---|
| Profit for the financial year | **22.1** | 28.9 |
| Dividend | **(9.6)** | (11.7) |
| Gain taken to the statement of total recognised gains and losses | **–** | (1.8) |
| Purchase of own shares | **–** | (2.5) |
| Share based payments | **0.1** | – |
| Increase in share capital | **–** | 0.1 |
| Increase in share premium | **–** | 0.2 |
| Net movement in equity shareholders' funds | **12.6** | 13.2 |
| Opening equity shareholders' funds | **291.9** | 278.7 |
| **Closing equity shareholders' funds** | **304.5** | 291.9 |

## 10 RETIREMENT BENEFIT OBLIGATIONS

The Company's principal defined benefit pension scheme is the Galliford Try Final Salary Pension Scheme (based on final pensionable salary) with assets held in separate trustee administered funds which was closed to future service accrual on 31 March 2007. As the Company is unable to identify its share of the assets and liabilities of the scheme, it accounts for contributions as if they were to a defined contribution pension scheme.

The most recent full actuarial valuations referred to in note 32 of the Group financial statements were updated to 30 June 2009 and the following information is disclosed in these financial statements in accordance with FRS17:

The assumptions used are specified below:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Rate of increase in salaries | **n/a** | n/a | n/a |
| Rate of increase in pensions in payment | **3.45%** | 3.85% | 3.35% |
| Discount rate | **6.45%** | 6.30% | 5.70% |
| Inflation assumption | **3.55%** | 4.00% | 3.40% |

The assumptions for mortality are based on actuarial table PXA92 medium cohort (2008: PXA92 medium cohort).

The average life expectancy at 65 for future male pensioners is 24.0 years (2008: 23.9 years) and for current male pensioners is 22.9 years (2008: 22.8 years).

**10 RETIREMENT BENEFIT OBLIGATIONS** continued

The assets in the scheme and the expected long term rates of return at 30 June were:

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | Return | Value £m | Return | Value £m | Return | Value £m |
| Equities | **8.10%** | **52.6** | 8.65% | 68.3 | 8.35% | 84.2 |
| Gilts | **4.10%** | **40.1** | 5.15% | 48.0 | 5.35% | 30.3 |
| Cash | **0.50%** | **0.4** | 5.00% | 1.2 | 5.50% | 5.9 |
| Bonds | **6.45%** | **24.8** | 6.30% | 11.3 | 5.70% | 11.0 |
| | | **117.9** | | 128.8 | | 131.4 |
| Present value of liabilities | | **(145.8)** | | (157.1) | | (156.4) |
| Deficit in the scheme | | **(27.9)** | | (28.3) | | (25.0) |
| Deferred tax | | **7.8** | | 7.9 | | 7.0 |
| | | **(20.1)** | | (20.4) | | (18.0) |

**Sensitivity analysis of scheme liabilities**

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions is set out below.

| | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | Increase/decrease by 0.1% | Increase/decrease by £2.6 million |
| Rate of inflation | Increase/decrease by 0.1% | Increase/decrease by £2.2 million |
| Increase in pension payments | Increase/decrease by 0.05% | Increase/decrease by £0.5 million |
| Life expectancy | Increase/decrease by one year | Increase/decrease by £2.9 million |

| | 2009 £m | 2008 £m |
|---|---|---|
| Analysis of the net return: | | |
| Expected return on the pension scheme assets | **8.8** | 9.6 |
| Interest on pension scheme liabilities | **(9.6)** | (8.8) |
| **Net profit and loss (charge)/credit before deduction of tax** | **(0.8)** | 0.8 |
| Analysis of amount recognised in the statement of total recognised gains and losses: | | |
| Actual return less expected return on assets | **(18.4)** | (15.2) |
| Experience gains and losses on liabilities | **(1.6)** | 0.4 |
| Changes in assumptions | **14.0** | 3.4 |
| **Actuarial loss** | **(6.0)** | (11.4) |
| Movement in deficit during the year: | | |
| At 1 July | **(28.3)** | (25.0) |
| Movement in the year: | | |
| Contributions | **7.2** | 7.3 |
| Expected return on the pension scheme assets | **8.8** | 9.6 |
| Interest on pension scheme liabilities | **(9.6)** | (8.8) |
| Actuarial loss | **(6.0)** | (11.4) |
| **At 30 June** | **(27.9)** | (28.3) |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 10 RETIREMENT BENEFIT OBLIGATIONS continued

| Details of experience gains and losses in the year: | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets: | | | | | |
| Amount £m | **(18.4)** | (15.2) | 2.2 | 6.4 | 6.2 |
| Percentage of assets | **(16)** | (12) | 2 | 6 | 7 |
| Experience gains and losses on liabilities: | | | | | |
| Amount £m | **(1.6)** | 0.4 | 1.9 | 5.2 | (2.5) |
| Percentage of present value of liabilities | **(1)** | – | 1 | 3 | (2) |
| Total amount recognised in statement of total recognised gains and losses: | | | | | |
| Amount £m | **(6.0)** | (11.4) | 3.7 | (5.1) | (15.2) |
| Percentage of present value of liabilities | **(4)** | 7 | 2 | (3) | (11) |

## 11 FINANCIAL INSTRUMENTS

For further FRS 29 narrative disclosures refer to note 25 of the Group financial statements.

**Interest rate swaps**
The notional principal amount of the outstanding interest rate swap contracts at 30 June 2009 was £57 million (2008: £69 million). At 30 June 2009, the fixed interest rate is 5.7 per cent (2008: 5.7 per cent).

The fair value of interest rate swaps is detailed below:

| | Assets £m | Liabilities £m |
|---|---|---|
| **At 30 June 2009** | | |
| Non current | – | (2.8) |
| At 30 June 2008 | | |
| Non current | 0.7 | – |

**Fair values of non-derivative financial assets and financial liabilities**
Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at the prevailing interest rate. The fair value of current borrowings equals their carrying amounts as the impact of discounting is not significant.

## 11 FINANCIAL INSTRUMENTS continued

| Fair value of non current borrowings | 2009 Book value £m | 2009 Fair value £m | 2008 Book value £m | 2008 Fair value £m |
|---|---|---|---|---|
| Long term borrowings | **112.4** | **103.4** | 120.3 | 98.0 |

**Fair value of other financial assets and financial liabilities**
Primary financial instruments held or issued to finance the Group's operations:

| | 2009 Book value £m | 2009 Fair value £m | 2008 Book value £m | 2008 Fair value £m |
|---|---|---|---|---|
| Short term borrowings | **13.0** | **13.0** | 15.8 | 15.8 |
| Creditors: amounts falling due within one year | **53.3** | **53.3** | 32.8 | 32.8 |
| Debtors | **19.9** | **19.9** | 17.4 | 17.4 |
| Cash at bank and in hand | **273.6** | **273.6** | 252.9 | 252.9 |

Statutory receivables are excluded from the debtor balances as this analysis is required only for financial instruments.

The effective interest rate used for fair valuing long term borrowings is 3.7 per cent (2008: 6.3 per cent) being the prevailing interest rate at 30 June 2009.

**Maturity of financial liabilities**
The maturity profile of the carrying value of the Company's non current liabilities at 30 June was as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Borrowings £m** | **Other financial liabilities £m** | **Total £m** | Borrowings £m | Other financial liabilities £m | Total £m |
| In more than one year but not more than two years | **12.0** | **–** | **12.0** | 12.0 | – | 12.0 |
| In more than two years but not more than five years | **100.4** | **–** | **100.4** | 108.3 | – | 108.3 |
| In more than five years | **–** | **–** | **–** | – | – | – |
| | **112.4** | **–** | **112.4** | 120.3 | – | 120.3 |

**Borrowing facilities**
The Company had the following undrawn committed borrowing facilities available at 30 June in respect of which all conditions precedent had been met at that date:

| | 2009 | | | 2008 |
|---|---|---|---|---|
| | **Floating rate £m** | **Fixed rate £m** | **Total £m** | Total £m |
| Expiring within one year | **30.0** | **–** | **30.0** | 30.0 |
| Expiring in more than 2 years | **264.4** | **–** | **264.4** | 252.4 |
| | **294.4** | **–** | **294.4** | 282.4 |

The Company entered into a five year bank facility for an aggregate total amount of £450 million in February 2007 with HSBC Bank plc, The Royal Bank of Scotland plc, Bank of Scotland and Barclays Bank PLC. The facility provides working capital, development finance and bonding. £150 million of this facility is on an amortising basis to £96 million by the facility maturity date in 2012, and at 30 June 2009 stood at £126 million. The facility is subject to covenants on interest cover, minimum net assets and gearing and is secured by charges over certain developments. Overall debt levels do fluctuate throughout the year, but the Company has substantial headroom within its banking facilities and continues to operate within the covenants of those facilities.

The facilities expiring within one year are annual facilities provided by HSBC Bank plc and Barclays Bank PLC that form part of the overall facility above. These facilties are subject to review in January 2010 and March 2010 respectively. All these facilities incur commitment fees at market rates.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 11 FINANCIAL INSTRUMENTS continued

The accounting policies for financial instruments have been applied to the line items below:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Assets at fair value through the profit and loss £m** | **Loans and receivables £m** | **Total £m** | Assets at fair value through the profit and loss £m | Loans and receivables £m | Total £m |
| **30 June 2009** | | | | | | |
| **Assets as per balance sheet** | | | | | | |
| Derivative financial assets | – | – | – | 0.7 | – | 0.7 |
| Debtors | – | 19.9 | 19.9 | – | 17.4 | 17.4 |
| Cash at bank and in hand | – | 273.6 | 273.6 | – | 252.9 | 252.9 |
| **Total** | – | 293.5 | 293.5 | 0.7 | 270.3 | 271.0 |

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Liabilities at fair value through the profit and loss £m** | **Other financial liabilities £m** | **Total £m** | Liabilities at fair value through the profit and loss £m | Other financial liabilities £m | Total £m |
| **Liabilities as per balance sheet** | | | | | | |
| Derivative financial liabilities | 2.8 | – | 2.8 | – | – | – |
| Borrowings | – | 125.4 | 125.4 | – | 136.1 | 136.1 |
| Creditors: amounts falling due within one year | – | 53.3 | 53.3 | – | 32.8 | 32.8 |
| **Total** | 2.8 | 178.7 | 181.5 | – | 168.9 | 168.9 |

## 12 SHARE BASED PAYMENTS

The Company operates performance related share incentive plans for executives, details of which are set out in the Remuneration Report. The awards that vest are satisfied by the transfer of shares for no consideration.

The options were valued using the Monte Carlo model. The fair value per option granted, subsequent to November 2002, and the assumptions used in the calculation are as follows:

| Grant date | Award price at grant date | Vesting period months | Risk free rate | Dividend yield | Fair value per option |
|---|---|---|---|---|---|
| 30.10.06 | 126.0p | 36 | 5.0% | 2.0% | 73.0p |
| 08.03.07 | 177.0p | 36 | 5.2% | 1.5% | 154.3p |
| 10.09.07 | 144.5p | 36 | 5.0% | 2.1% | 71.2p |
| 10.03.09 | 37.5p | 36 | 1.7% | 2.5% | 10.0p |

The expected volatility is based on historical volatility in the movement in the share price of the Company and its comparator Group and the correlations between them over the last three years. The expected life is the average expected period to exercise. The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of performance related share awards over the year to 30 June is shown below:

| | 2009 Number | 2008 Number |
|---|---|---|
| Outstanding at 1 July | **3,325,750** | 3,105,400 |
| Granted | **6,291,492** | 1,384,550 |
| Cancelled | **(708,147)** | – |
| Forfeited | **(1,146,374)** | (265,200) |
| Exercised | **(224,853)** | (899,000) |
| Outstanding at 30 June | **7,537,868** | 3,325,750 |

The weighted average fair value of awards granted during the year was Nil (2008: 71.2p). The weighted average share price at the date of exercise was 59.75p (2007: 59.0p). The weighted average remaining contractual life is Nil as the shares are exercised on the day that they vest (2008: Nil).

## 13 CONTINGENT LIABILITIES

Disputes arise in the normal course of business, some of which lead to litigation or arbitration procedures. The directors make proper provision in the accounts when they believe a liability exists. Whilst the outcome of disputes and arbitration is never certain, the directors believe that the resolution of all existing actions will not have a material adverse effect on the Group's financial position.

The Company has entered into financial guarantees and counter indemnities in respect of bank and performance bonds issued on behalf of Group undertakings in the normal course of business amounting to £113.5 million (2008: £117.7 million).

As explained in the Corporate Governance Report, the Group is awaiting a decision from the Office of Fair Trading in respect of allegations of breaches of the 1998 Competition Act. No provision has been made for any potential fine in relation to this matter, as the result of the investigation is not yet known and any potential fine is therefore not quantifiable.

## 14 OTHER FINANCIAL COMMITMENTS

The Company, together with certain of its subsidiaries, has entered into arrangements with HSBC Bank plc, The Royal Bank of Scotland plc, Bank of Scotland and Barclays Bank PLC to guarantee the borrowings of Group companies. Fixed charges have been given to these banks over certain of the Group's freehold and development properties.

Details of other guarantees given by the Company in respect of joint ventures is set out in note 35 of the Group financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

### 15 SUBSIDIARIES

The directors consider that to give particulars of all subsidiary undertakings would lead to a statement of excessive length. The following subsidiary undertakings, in the opinion of the directors, principally affect the results and assets of the Group and have been disclosed in accordance with section 409 (5) of the Companies Act 2006. A complete list will be attached to the Company's annual return. All are incorporated in England and Wales except where stated, operate in the United Kingdom, are 100 per cent owned and have 30 June year ends.

Galliford Try Construction Limited*
Galliford Try Employment Limited
Galliford Try Homes Limited*
Galliford Try Infrastructure Limited**
Galliford Try Investments Limited*
Galliford Try Partnerships Limited
Galliford Try Plant Limited
Galliford Try Properties Limited*
Galliford Try Services Limited*
Gerald Wood Homes Limited
Kendall Cross Holdings Limited
Linden Limited
Midas Homes Limited
Pentland Limited
Rock & Alluvium Limited
Stamford Homes Limited
Stamford Homes North Limited

* Shares of these subsidiary companies are owned directly by the Company.

** Incorporated in Scotland

### 16 RELATED PARTY TRANSACTION

Shareholders are, by way of a separate resolution to be proposed at the Annual General Meeting, being asked to approve a proposed purchase, by a son of Frank Nelson, an executive director of the Company, of a property being developed and sold by Linden Limited, a subsidiary of the Company. The property is to be purchased for his son's own residential use for a consideration of £356,000 and is situated in Guildford, Surrey. The directors have received written confirmation from independent valuers stating that the price payable for this property respresents a fair market value.

### 17 POST BALANCE SHEET EVENT

On 10 September 2009, the Company announced a rights issue to raise approximately £119 million, net of expenses, to recommence the expansion of its housebuilding business.

# FIVE YEAR RECORD

| | 2005 £m | 2006 £m | 2007 £m | 2008 £m | **2009 £m** |
|---|---|---|---|---|---|
| Revenue | 718.5 | 851.5 | 1,409.7 | 1,831.9 | **1,461.2** |
| Profit before exceptional items | 27.4 | 32.5 | 53.0 | 71.8 | **24.5** |
| Exceptional items | – | 2.0 | 7.2 | (11.5) | **(51.4)** |
| Profit/(loss) before taxation | 27.4 | 34.5 | 60.2 | 60.3 | **(26.9)** |
| Tax | (8.3) | (9.1) | (16.6) | (17.8) | **9.1** |
| Profit/(loss) after taxation attributable to shareholders | 19.1 | 25.4 | 43.6 | 42.5 | **(17.8)** |
| Fixed assets, investments in joint ventures and available for sale financial assets | 14.2 | 12.5 | 15.4 | 24.1 | **18.4** |
| Intangible assets and goodwill | – | 59.5 | 121.2 | 125.2 | **123.2** |
| Net current assets | 77.0 | 137.2 | 312.0 | 321.6 | **269.2** |
| Long term receivables | 15.4 | 15.9 | 15.7 | 34.4 | **52.3** |
| Long term payables and provisions | (52.9) | (105.0) | (157.7) | (180.0) | **(168.5)** |
| Net assets | 53.7 | 120.1 | 306.6 | 325.3 | **294.6** |
| Share capital | 11.3 | 13.7 | 18.8 | 18.9 | **18.9** |
| Reserves | 42.4 | 106.4 | 287.8 | 306.4 | **275.7** |
| Shareholders' funds | 53.7 | 120.1 | 306.6 | 325.3 | **294.6** |
| Dividends per share (pence) | 2.1 | 2.5 | 3.0 | 3.0 | **1.5** |
| Basic earnings/(loss) per share (pence) | 8.6 | 10.8 | 14.3 | 11.4 | **(4.8)** |
| Diluted earnings/(loss) per share (pence) | 8.5 | 10.6 | 14.1 | 11.4 | **(4.8)** |

# GALLIFORD TRY CONTACTS

Galliford Try plc
Cowley Business Park
Cowley
Uxbridge UB8 2AL
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Email: plc@gallifordtry.co.uk
Website: www.gallifordtry.co.uk

Chief Executive: Greg Fitzgerald
Finance Director: Frank Nelson
Company Secretary: Richard Barraclough
Group Managing Director, Construction: Ken Gillespie
Group Managing Director, Housebuilding: Ian Baker

Divisional MD, Building: Stuart Gibbons
Divisional MD, Infrastructure: Ken Gillespie
Divisional MD, Housebuilding South East: Paul Cooper
Divisional MD, Affordable Housing and Regeneration: Stephen Teagle

**Housebuilding**
Midas Homes and
Gerald Wood Homes
Homeside House
Silverhills Road
Newton Abbott
Devon TQ12 5YZ
Tel: 01626 356 666
MD: Bill Cawse

Stamford Homes
Ashurst, Southgate Park
Bakewell Road
Orton Southgate
Peterborough PE2 6YS
Tel: 01733 396 600
MD: Brendan Blythe

Stamford Homes North
The Old Dairy
231-233 Heneage Road
Grimsby DN32 9JE
Tel: 01472 352 101
MD: Brendan Blythe

Linden Homes Southern
Linden House
14 Bartram Road
Totton
Southampton S040 9PP
Tel: 023 8066 5100
MD: Pat Feighery

Linden Homes Western
Linden House
The Jacobs Building
Berkeley Place
Clifton
Bristol BS8 1EH
Tel: 0117 930 4949
MD: Nigel Palmer

Linden Homes South East and
London Homes Chiltern
Linden House
Guards Avenue
Caterham
Surrey CR3 5XL
Tel: 01883 334 400
MD: Steve Bangs

**Affordable Housing and Regeneration**
Galliford Try Homes
Homeside House
Silverhills Road
Newton Abbott
Devon TQ12 5YZ
Tel: 01626 356 666
MD: Stephen Teagle

Galliford Try Partnerships
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50 Rainsford Road
Chelmsford
Essex CM1 2XB
Tel: 01245 494 849
MD: Mick Laws

Galliford Try Partnerships North
Mill House
West Road
Ponteland
Newcastle-upon-Tyne
NE20 9SG
Tel: 01661 824211
MD: Neil Ramsey

**Building**
Galliford Try Construction North
Innovation House
Daten Park
Birchwood
Warrington
Cheshire WA2 0XR
Tel: 01925 822 821
MD: Bob Merriman

Galliford Try Construction
Central
Wolvey
Hinckley
Leicestershire LE10 3JF
Tel: 01455 222 777
MD: Chris Bond

Galliford Try Construction South
Cowley Business Park
Cowley
Uxbridge
Middlesex UB8 2AL
Tel: 01895 855 000
MD: James Armitage

Morrison Construction
Kirkton Avenue
Pitmeddon Road
Industrial Estate
Dyce
Aberdeen AB21 0BF
Tel: 01224 725 244
General Manager: Mike Keith

Galliford Try
Facilties Management
Cowley Business Park
Cowley
Uxbridge
UB8 2AL
Tel: 01895 855 180
MD: Jon Chown

**Infrastructure**
Galliford Try
Civil Engineering
Wolvey
Hinckley
Leicestershire LE10 3JF
Tel: 01455 222 753
MD: Gary Young

Galliford Try Transport
Crab Lane
Fearnhead
Warrington
Cheshire WA2 0XR
Tel: 01925 822 821
MD: Steve Walsh

Galliford Try Specialist Services
Wolvey
Hinckley
Leicestershire LE10 3JF
Tel: 01455 222 792
MD: Dean Ashton

Galliford Try Water
Wolvey
Hinckley
Leicestershire LE10 3JH
Tel: 01455 222 753
MD: David Bevan

**PPP Investments**
Galliford Try Investments
51 Melville Street
Edinburgh EH3 7HL
Tel: 0131 200 4400
MD: Andrew Richards

# SHAREHOLDER INFORMATION

**Financial calendar 2009**

| | |
|---|---|
| Half year results announced | 21 February |
| Interim dividend paid | 14 April |
| Full year results announced | 10 September |
| Ex dividend date | 16 September |
| Final dividend record date | 18 September |
| Annual General Meeting | 6 November |
| Final dividend payment | 13 November |

**Shareholder enquiries**
The Company's registrars are Equiniti. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them if you change your address or other personal information. Their address and contact details are:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

**Shareholder helpline**
Telephone: 0871 384 2202

You can find a number of shareholder services online via their website at **www.shareview.co.uk**, including the portfolio service which gives you access to more information on your investments such as balance movements, indicative share prices and information on recent dividends. You can also register your email address to receive shareholder information and Annual Report and Financial Statements electronically.

**Low cost share dealing service**
A telephone and internet dealing service is available through Equiniti which provides a simple way of buying and selling Galliford Try shares. Commission is currently 1.5 per cent with a minimum charge of £25 for telephone dealing and 1 per cent with a minimum charge of £20 for internet dealing. For telephone sales call 0845 603 7037 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to **www.shareview.co.uk/dealing**. You will need your shareholder reference number as shown on your share certificate. Share dealing services are also widely provided by other organisations.

**Company website**
www.gallifordtry.co.uk

You can find out more about the Company on our website **www.gallifordtry.co.uk** which includes a section specifically prepared for investors. In this section you can check the Company's share price, find the latest Company news and look at the financial reports. In addition, frequently asked questions and answers in respect of shareholding matters can be accessed on the investors page.

The Company's up to date share price can also be obtained by telephoning Financial Times Cityline on 0906 843 2653 (calls charged at 60p per minute).

**Company contact**
Contact with existing and prospective shareholders is welcomed by the Company. If you have any questions please contact the Company Secretary, Richard Barraclough, at the registered office, or via email (**richard.barraclough@gallifordtry.co.uk**).

**Share price data**
The Company is listed on the London Stock Exchange under the code GFRD. The average total daily trading volume during the financial year was approximately 1.12 million ordinary shares. The opening market price of an ordinary share on 1 July 2008 was 36.0 pence and closing market price on 30 June 2009 was 48.25 pence. The highest daily closing price of an ordinary share was 67.0 pence on 3 September 2008 and lowest daily closing price was 27.5 pence on 5 December 2008.

# SHAREHOLDER INFORMATION continued

**Analysis of shareholding**
at 30 June 2009

| Size of shareholding | Number of holders | % of holders | Number of shares | % of shares |
|---|---|---|---|---|
| 1 – 10,000 | 3,784 | 76.11 | 12,450,315 | 3.30 |
| 10,001 – 50,000 | 810 | 16.29 | 16,978,064 | 4.49 |
| 50,001 – 500,000 | 258 | 5.19 | 41,095,708 | 10.88 |
| 500,000 – Highest | 120 | 2.41 | 307,242,686 | 81.33 |
| **Totals** | **4,972** | **100.00** | **377,766,773** | **100.00** |

**Registered office**
Galliford Try plc
Cowley Business Park
Cowley
Uxbridge
Middlesex UB8 2AL

**Registration**
England 836539

**Stockbrokers**
KBC Peel Hunt
Hoare Govett

**Financial advisers**
Rothschild

**Auditors**
PricewaterhouseCoopers LLP

**Bankers**
HSBC Bank plc
The Royal Bank of Scotland plc
Bank of Scotland
Barclays Bank PLC

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