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Morrison Facilities Services Limited

Annual report and consolidated financial statements

For the year ended 31 March 2011

Registered number SC120550

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Morrison Facilities Services Limited

Introduction

The year ended 31 March 2011 has been a period of strong performance for Morrison Facilities Services Limited ("Morrison"), with significant progress made towards our goal of being the best provider of housing repairs services to the social housing sector. Our decision to focus our activities upon revenue funded responsive maintenance in the social housing sector has allowed Morrison to continue to deliver earnings growth and strong cash-generation despite the down-turn in the economy and the resulting cuts in public expenditure.

Our core proposition remains transformational outsourcing of housing repairs services, creating cost saving through efficiency, improved service quality, and sustainable local employment, and our unique offering has allowed us to secure more new business in 2010/11 than in any year previously. Prospects for further growth in the housing repairs sector remain favourable, with authorities increasingly selecting sustainable long-term contracts with stable service providers and public sector cost pressure creating new outsourcing opportunities.

Morrison Facilities Services Limited
Chief Executive's Statement for the year ended 31 March 2011

2010/11 has been a watershed year for Morrison, with sales increasing to £274.6m, an increase of 2.5% on the previous year, underpinned by significant earnings growth with EBITDA increasing by almost 49% to £18.9m, and profit before tax increasing by 64% to £19.6m. Our focus on responsive repairs has allowed us to further develop the quality and efficiency of our service offering during the year, which has shown results both in increased earnings and in cash conversion. Operating cash for 2010/11 was £15.9m, up £2.5m on the previous year, with a ratio of operating cash to EBITDA of 94% in line with last year's performance. Net cash balances have increased over the year by £3m to a closing position of £23.2m. Morrison's working capital management is amongst the best in the industry, and our ability to grow the company from working capital resources without reliance upon commercial debt is a particular differentiator and an important strength when public spending is tightening. Debtors for the year remain stable at 41 debtor days, with creditors continuing to be paid promptly.

We are pleased to report a significant improvement in our health and safety performance, with an accident frequency rate (AFR) improved from 0.25 in the prior year to 0.16 in 2010/11. We continue to invest in health and safety training, equipment, and expertise to support our pledge to improve the wellbeing of our employees and to maintain our status as one of the safest companies in our sector.

2010/11 has been Morrison's best ever year for order-book growth, and we are delighted to have secured 32 new contracts in the period. Significant amongst those are new business wins with Salix Homes in Salford, Aire Valley Homes and West North West in Leeds, Paragon, Catalyst and Ealing Homes in West London, and 2010 Rotherham in South Yorkshire. We are also delighted to have renewed our flagship account with North Lanarkshire Council for a second decade, and to have renewed or extended existing relationships with Midland Heart, Lambeth Living, and Northwards in Manchester. The committed order-book now stands at £1.4bn, with new work worth £780m secured over the year. Forward visibility of revenues is now unprecedented, with sales cover on a 'book to bill' basis of 4.5 times.

Morrison is committed to delivering service predominately through a directly employed workforce, and our ability to engage with and motivate our delivery teams is both a key priority and a critical competitive differentiator. We have been delighted to have secured both Investors in People status and a Business in the Community Big Tick award, both testament to the strength of our employment proposition and the energy and enthusiasm of our teams.

The outlook for Morrison continues to be positive. The company has a qualified sales pipeline of £2.7bn, and our ability to consistently win and mobilise new contracts at sustainable pricing levels will allow us to continue to grow organically whilst still generating free cash-flow. We continue to employ and attract the most talented leaders within the sector, who are focussed and motivated to deliver our next phase of growth.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011

The directors present their report and the audited financial statements of Morrison Facilities Services Limited ("Morrison") for the year ended 31 March 2011.

Principal activities

Morrison is one of the leading providers of social housing repairs in the United Kingdom. We principally deliver outsourced property repair and maintenance and capital investment services to housing associations and local authorities.

Morrison currently has over 50 major clients. We manage more than 500,000 homes and other local authority buildings and provide facilities services to over 500 schools. We provide repair and maintenance services along with related activities such as call centre management and tenant liaison. Morrison also manages local authority and housing association capital spending programmes such as kitchen and bathroom replacement.

Our vision is to transform the quality of homes and communities for our customers. That means we do things differently and better by:

- ☆ Creating sustainable jobs and apprenticeships
- ☆ Engaging in our communities
- ☆ Being accountable for our performance and always trying to do better

The social housing market

The 2010 UK social housing market (comprising responsive maintenance, planned maintenance and Decent Homes) was worth an estimated £12.0 billion. We estimate annual market decline of nine per cent in the following year and then three percent the year after, primarily due to a decline in the Decent Homes programme but this is dependent on government spending and no replacement for the Decent Homes programme.

Morrison is a large, respected player in this hugely fragmented market, in which the top six players have a combined market share of just seventeen per cent. We are ranked number three in this market by revenue – and number one for our core responsive maintenance work.

Councils and housing associations have outsourced approximately 85 per cent of their capital and repairs work, but only about 55 per cent of responsive work, Morrison's core activity, has been outsourced to date. Outsourcing for repairs work is likely to increase as councils and housing associations continue to seek private sector involvement to address their growing spend and service challenges.

Bundled multi-trade works (for example painting, plumbing and gas servicing) are now commonplace as councils and housing associations find combined contracts more cost-effective and easier to run. Bigger multi-trade players like Morrison have benefited, with the market share of the largest providers increasing in each of the last two years. Morrison's scale also means we can invest in training and IT systems that support client and tenant demands for rapid, top quality service backed by better management information.

We feel we have abundant opportunities to grow, since we believe more work will be outsourced to the private sector and we are well placed to grow share in a fragmented market.

Measuring Performance

Key Financial Values

Morrison uses a number of key performance indicators (KPIs) to measure its performance and progress against business objectives in the areas of customers, people and performance.

The most important of these KPIs focus on the six key areas of order book, customer service level, accident frequency rate, operating margin, cash conversion and working capital cycle.

Order book

£1,428m ▲
(2010: £923m)

Customer service level

97% ▲
(2010: 94%)

Accident frequency rate

0.16 ▼
(2010: 0.25)

Operating margin

5.5% ▲
(2010: 4.9%)

Cash conversion

96% ▲
(2010: 92%)

Trade debtor days

41 days ▲
(2010: 39 days)

An operating margin of 5.5% is an improvement on the prior year; whilst the cash conversion of 96% indicates a strong cash performance in the year.

KPI	Measure	Report Section
Order book	Cumulative revenue from signed contracts (excluding potential extensions).	Resources not reflected in the financial statements.
Customer service level	Proportion of jobs completed within timescales agreed with our clients.	Relationships: Our Clients.
Accident frequency rate	Reportable accidents per 100,000 hours worked by our employees and subcontractors.	Corporate Social Responsibility: Health and safety.
Operating margin	Earnings before interest, taxation and amortisation as a proportion of total Group turnover.	Financial performance during the year.
Cash conversion	Operating cash flow as a share of earnings before interest, tax, depreciation and amortisation.	Financial position at the balance sheet date.
Trade debtor days	Days' sales held in net trade debtors and amounts recoverable on contracts as a proportion of total Group turnover.	Financial position at the balance sheet date.

The Morrison Vision and Values

Our Vision

Morrison's vision is to **transform the quality of homes and communities for our customers.** We recognise the important part that high quality housing plays in creating safe, happy and cohesive communities, and throughout all of our operations we seek to create value, deliver quality service and offer sustainable and rewarding employment.

Our key objective is straightforward yet bold – to establish Morrison as the best provider of repairs and maintenance services to the social housing sector. Morrison is an organisation with ambition, and we view every new partnership as an opportunity to deliver sustainable business growth; to create positive outcomes for all citizens within the region as well as for our workforce; to create and preserve employment; and to deliver a housing service that will be recognised as one of the very best.

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The Morrison vision is underpinned by three key values, around Customers, People and Performance:

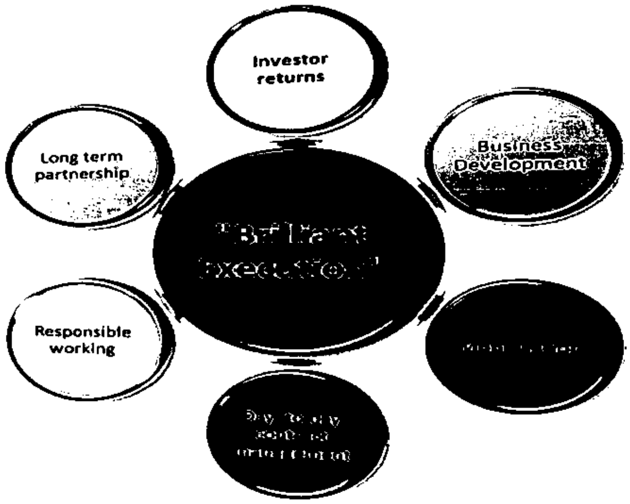
Customers are critical, not just our clients, but their tenants and communities, and we seek to build long-lasting sustainable partnership built on trust and integrity.

We value all of our **People** – and that is both our teams, our clients, our customers and the public in the communities where we work. We value everyone's contribution, wellbeing, safety and development, and aim to be the best possible employer.

Performance is critical too, and our teams have the courage and energy to challenge the norm and look for ways to do things differently. We work smart and we work hard, and the Morrison culture is characterised by continuous improvement, where doing things better is the day job.

Our Strategy – Brilliant Execution

A sharp focus on being the best in our sector should ensure success for our clients, their tenants and communities, for our employees and partners, and for our shareholders alike. We work hard to build a culture that measures success, learns from mistakes, embraces opportunity, and backs ambition with sustained, reliable delivery.



We remain focused on delivering excellence within our market place. As the largest provider of responsive repairs in the social housing market, our business is focused on being not only the biggest but the best. Brilliant Execution is the culmination of all aspects of our business, working harmoniously to deliver results for our stakeholders.

Business development

We have good visibility of long and short term core market opportunities and continue to craft 'value add' solutions for prospective clients. Our significantly enhanced new business teams continue to engage with, and craft solutions for, potential new clients - delivering value and innovation to clients and tenants alike.

The key to success in delivering value depends upon aligning our culture with that of the client by harmonising the ambitions and values of both parties. By focusing on specific opportunities, delivering value, aligning our core values and crafting bespoke solutions we deliver upper quartile bid success rates at both Pre Qualification Questionnaire and Invitation to Tender.

Our teams have a specific strategy for each opportunity and by early engagement across our business (operations, HR, IT, etc) we craft and deliver bespoke services to clients so that when mobilised we deliver on promises made during tender.

Mobilisation

Our strategy is based on growth from existing or new clusters of contracts and successful mobilisation is the foundation for success. The key to a seamless transition from tender to service delivery is early engagement from all aspects of our business. Morrison has developed a process to ensure our operations, IT, and people development teams have early visibility and fully understand our bespoke value proposition and thus deliver on all aspects of the bid during mobilisation.

This, coupled with our vast experience of successful TUPE workforce transfers ensures people, platforms and workflow are all fully integrated and operational, ready to commence services in line with our client's requirements.

Furthermore, as a business, we have full clarity on revenue, profitability, return on investment (ROI) and cash flow across the term of the contract which allows us to measure contractual pricing against delivery. The critical path of mobilisations typically centres on the TUPE transfer process and we ensure a timely exchange of data flow prior to contract commencement.

Day-to-day contract management

We have a significant footprint across Great Britain and future revenue growth will be a combination of organic and new business growth. In order to achieve sustainable organic growth, it is critical that service delivery and client relationships remain strong. In 2010/11 we have enhanced our account management approach by implementing a new CRM platform, and we continue to train our client facing teams to develop strong multiple relationships in depth.

Partnership is the key to success. Traditional methods of communication, such as workload planning, KPI reporting and financial reporting remain important, but should complement deeper communication and relationships akin to true partnership. By engendering a culture of openness, innovation and value for money, we ensure our teams work in harmony with our clients to provide the best possible service to the tenants.

Responsible working

We prioritise the safety of our teams, clients and tenants and safety remains the first agenda item at every board and executive meeting. Through sustainable procurement and working with a responsible supply chain, we can deliver on our commitment to localism.

The environmental impact of our work remains a focus for our business and we continue to strive to reduce our carbon footprint by sustainable procurement, a new generation 'green' fleet and installing energy saving measures across our property portfolio.

Our Business Development team use responsible working practices to ensure that sound bidding assures longevity and sustainability for our business and our clients.

Our management processes ensure we measure profitability and cash generation across the term of the contract to ensure our delivery model is robust and sustainable.

Long-term partnerships

In our market place, we benefit from long-term contracts that allow for significant investment and innovation throughout the term of the contract. Contrary to the belief that long-term contracts breed complacency from suppliers, we actively develop new approaches and technological development to drive both enhanced service provision and efficiency savings in line with our client's expectations.

Our business goals remain committed to retaining all contracts when re-bid. By implementing robust account management principles, delivering market leading customer service and delivering innovation throughout the contract, we continue to grow our business from a very stable platform.

Investor returns

Our approach to business is sustainable, long term, profitable growth. As an organisation we continue to grow, deliver profit, retain strong cash reserves and pay dividends to our shareholder.

Our financial strength differentiates us within our market and we are proud that our margins are amongst the best in sector. The key to success is delivering first class customer service, unparalleled account management, industry leading safety statistics and a culture aligned to that of the customer. By ensuring this, our business will continue to grow and therefore fulfil our requirements to our shareholders.

Achieving our goals

To ensure brilliant execution we set clear, measurable objectives based on each of our three values areas. For 2010/11 these were:

CUSTOMERS
BUILDING LASTING PARTNERSHIPS

- Implement **account management plans** for all contracts
- **Retain all business** renewing in the period
- Deliver **£50m of new business revenue** in 2010/11
- Develop environmental proposition for **carbon neutral repairs**
- Develop **housing management** capability

PEOPLE
CARING FOR OUR CUSTOMERS, OUR TEAMS, OUR COMMUNITIES AND OUR ENVIRONMENT

- Reduce regional **accident frequency rates** by 25%, and maintain the national **Accident Frequency Rate beneath 0.30**
- Operate with **zero reportable accidents** and zero enforcement notices
- Enter **Sunday Times Top 100** companies list
- Deliver **management training** for all supervisors
- **Reduce absenteeism** beneath 3.0%

PERFORMANCE
IMPROVEMENT IS OUR DAY JOB

- **Deliver financial plan**
- All contracts "on green"
- Maintain **EBITDA cash conversion** > 75%
- Reduce **working capital cycle** with debtor days to 40
- Continue faultless execution of **mobilisation**
- Embed **workflow management process** on all operating contracts

Other resources

Reputation, market position and competitive advantage

As the largest provider of responsive repairs in the social housing market, we have a strong reputation in this market. Through targeted public relations and marketing campaigns, we are seen as a safe, responsible, and commercially strong organisation, a reputation we are proud of. Our cash conversion remains strong which, combined with our first class Dun & Bradstreet rating, demonstrates our resilience and longevity in this sector.

By leveraging fixed overheads, we can deliver client efficiencies from economies of scale which offers us a competitive advantage. However, our competitive advantage is not simply based on scale. Our true value derives from aligning our organisation culture with that of our clients; delivering bespoke services based on a solid platform of proven service delivery and keeping the customer at the forefront of all that we do as an organisation.

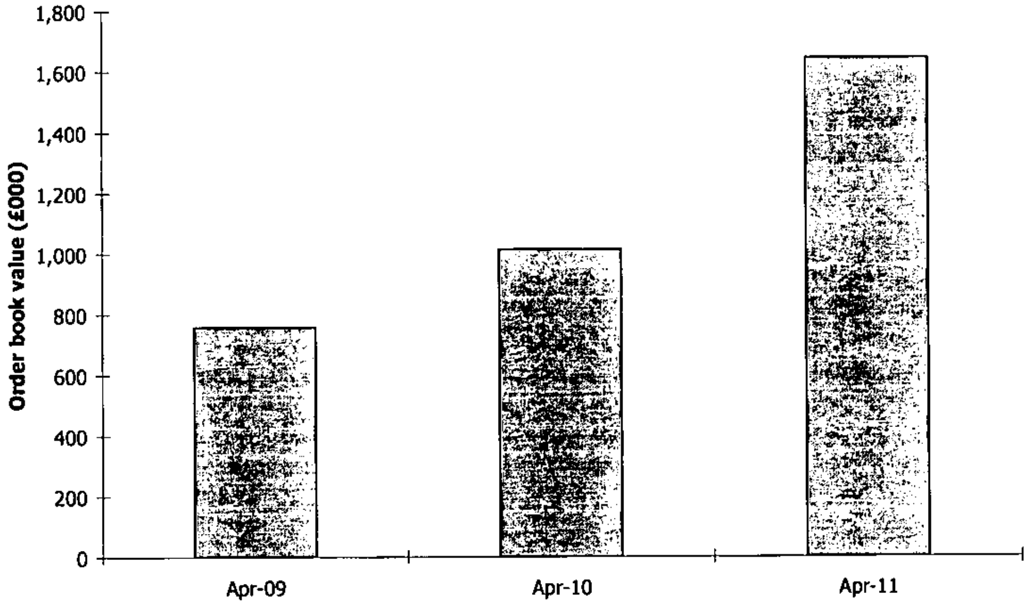
Our experience in TUPE transfer, specialist IT interfaces and tenant engagement undoubtedly positions us in the upper quartile of services providers. This expertise, coupled with a commitment to work to preserve jobs, deliver value, and invest in communities and people is a significant differentiator between Morrison and the thousands of providers within this fragmented outsourced market.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)

Order book

The forward order book is an important measure of the long-term health of our business.

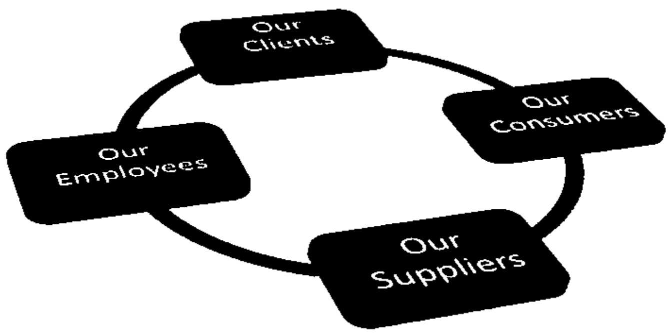
The order book at 31 March 2011 has increased to £1,428m (2010: £923m). This represents over five times the Group's turnover figure for the current year. The profile of the order book is also favourable in that a large proportion of this revenue relates to long duration contracts with several years to completion.



The directors define Morrison's order book prudently as the cumulative value of anticipated future revenue from signed contracts extending beyond the balance sheet date, and exclude any revenue from these contracts that are conditional on contract extensions or successful re-bid events.

Relationships

Morrison values all key relationships with clients, consumers, suppliers and employees. They are an integral part of Morrison's success and vision.



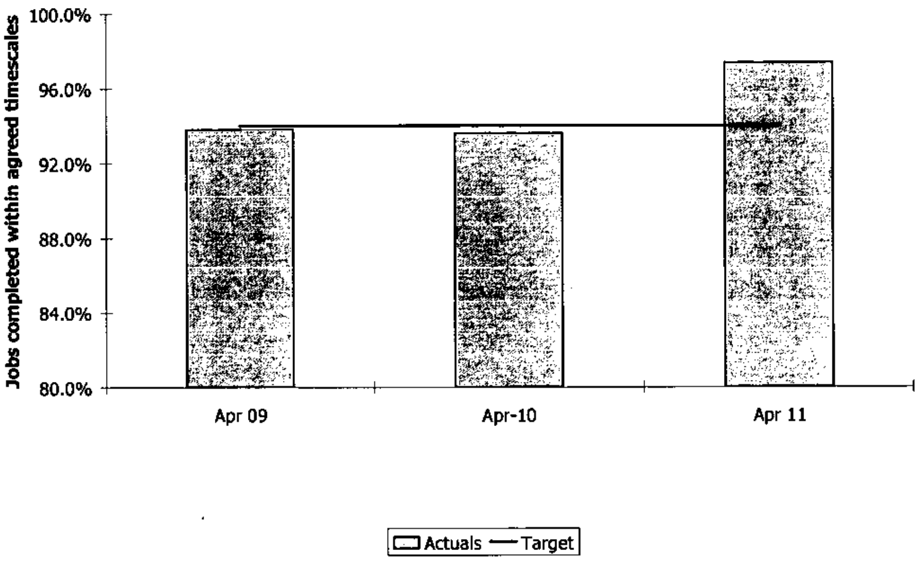
Our clients

We value strong relationships with our clients. Because our contracts are large and multi-year, each relationship is unique and vital for our business. We therefore seek to understand our clients' own values and challenges. We treat each client uniquely through our local and national management teams and strive to develop working relationships that are richer and more helpful than a standard client-subcontractor relationship. We call this 'managing behaviour' and it is at the heart of how we would like to conduct ourselves.

Our very best contracts engender a team spirit that makes the interface between Morrison and its clients invisible and deploy innovative 'products' that move partnership working to new levels of trust and service.

We regularly monitor and seek to improve customer service levels.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)



This focus on strong, long-term partnerships is reflected in our choice of customer satisfaction level as a key performance indicator with a 97% satisfaction level in the year. The Group exceeded its target level of service in nine of the past twelve months and proved resilient to disruption during exceptional winter snowfall.

Our customers

We understand that our ultimate customer is the tenant in their own home and community. Delivering consistent service on the ground through respectful, well-trained, properly equipped operatives is at the heart of what we do, and we value tenant feedback and service measurement. We recognise that Morrison also has a social role in that the right to safe, good quality housing is often at the heart of health and life-chance issues for the tenants we serve.

We strive to attain the highest of standards for the tenants and communities with whom we work, not only through the quality of the work we deliver, but through a range of community initiatives including training academies and community involvement.

Our suppliers

During the year we have built a professional Procurement department within Morrison to strengthen our supply chain. The goal of the department is not simply to secure better pricing, but to ensure Morrison works strongly with its key suppliers. These suppliers share in our strategy, plans, and ambitions and we believe that by working together we achieve benefits for both parties.

Morrison provides suppliers of goods and services with a statement of general conditions of contract. In general, purchasing agreements are in place with preferred national and local suppliers and the terms will apply to all transactions.

Our employees

Following our first annual employee satisfaction survey in 2009/10 we introduced a monthly staff recognition scheme called 'Morrison Stars'. This allows any staff member to nominate another for an award for exceptional work or service.

The Group values diversity within its workforce and is an equal opportunities employer. All job applications are fully and fairly considered, having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training is given. Career development and the promotion of disabled people is, as far as possible, identical to that of other employees.

Morrison's Corporate Diversity Group actively promotes a culture of equality and diversity throughout the organisation. This group challenges all working practices and initiatives to ensure they are anti-discriminatory and embrace this ethos fully. The group also ensures the sharing of best practice and new ideas.

In addition to launching a rejuvenated monthly 'Team Brief' cascade process to improve internal communication we launched an innovative new Intranet capability in May 2010. This provides a new way of bringing Morrison communications direct to its workforce and is improving knowledge-sharing and communication in all areas of our business.

Safety training is already given regularly (including 'toolbox talks' at least monthly) but additionally this year has seen the launch of a new 'Learning and Development' activity that will increase staff development across the full range of business activities.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)

Corporate and Social responsibility

Morrison's commitment to our vision of transforming the quality of homes and communities for our customers ensures that Corporate Social Responsibility (CSR) is at the heart of what we do.

Our corporate social responsibility activities focus on four main impact areas; workplace, marketplace, environment and local communities part of our approach, we identify opportunities and risks:

Key Opportunities

- Implementing Sustainable Procurement Policy and Processes
- Implementing 'Green Activities' within the organisation such as 'Green Travel Day'
- Develop a robust suite of engagement tools to motivate and value our employees
- Create a Green Product through 'Carbon Neutral Repairs Service'

Key Risks

- Failure to maintain key customer relationships
- Failure to develop skills in our workforce to support long term business growth
- High absence rates leading to poor achievement of business objectives
- Failure to maintain an effective and aligned supply chain

Engaging effectively with our key stakeholders; customers, employees, supply chain partners, and local communities is the best way for us to deliver upon our social, environment and economic priorities.

As part of the formal process of managing our commitment to CSR, we have a clear CSR Corporate Statement, Policy and three year strategy. These documents ensure that the entire organisation is aligned with our business objectives and our commitment to CSR.

When looking at 2010/11, there have been some great highlights that clearly show the commitment, hard work and enthusiasm that exists within Morrison These highlights include

- Achieved Silver in 2011 Business in the Community CR Index
- Launched our first Corporate Charity (Shelter) and are fundraising to achieve £50k target
- Achieved Investors in People Award
- Launched initiatives to support Environmental Impact, which includes Green Travel Day

Charitable donations

During the year the Group made charitable donations totalling £10,000 (2010: £15,000) to various community causes.

Although we are very proud of the achievements this year, we are committed to continue this progress and our long-term CSR objectives include:

- To have a fully engaged workforce, both front-line and office based, that includes communication, training and succession planning.
- To reduce our greenhouse gas emission by 50%.
- To fully support local communities through a comprehensive community investment programme that is independently verified.
- To ensure a fully integrated sustainable procurement policy with our business and with our supply chain.

Morrison and the Workplace

At Morrison, we strive to make our workplace an appealing, positive and engaging environment where our employees feel supported and part of the Morrison team. To help us achieve this, we have developed a comprehensive range of engagement initiatives so that we are always talking and listening to our workforce and developing our communication activities around the business in line with their needs. In addition to this, we have our company intranet 'MINT' and our quarterly magazine 'CONNECT'.

One of our priorities in our business is to make sure our employees are given the opportunity to train and develop to meet their full potential. We have a comprehensive Learning and Development department that manages our Personal Development Review process, our Morrison Training Academy and our numerous workplace training programmes, such as the Management Development and Team Leader Programmes.

Morrison and the marketplace

We recognise the importance of sustainable suppliers, sub-contractors and customer relationships; these relationships help our business to run more effectively and efficiently, and we strive continuously to improve these relationships. We work hard to improve our procurement processes and have an Ethical Procurement Policy that covers the purchase of all goods and services and day to day work and provide Morrison with a company-wide directive to ensure that the business secures all potential benefits from it is third party relationships in order to assist and maintain our service delivery to our customers.

Morrison and the Environment

Committing to improving the environment is a key priority for Morrison underpinned by our ISO 14001 accredited Environmental Management System, supported by a robust and comprehensive environmental auditing system.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)

Morrison in the community

Morrison recognises the importance of supporting and investing in our local communities. We work closely with our clients, customers, suppliers and others such as local community and resident groups and social enterprises to deliver community projects that align with clients. This commitment is demonstrated through six corporate community themes:

- Establish local employment
- Support education and local people development
- Support social and economic development
- Work with clients and communities to promote diversity and tackle discrimination
- Promote safer communities
- Promote a positive impact on the environment

These themes are at the core of our community investment initiatives and assist and support the delivery of any projects or activities undertaken. We strongly believe and place great importance on ensuring that all initiatives undertaken positively contribute to, and benefit our local communities.

Group Financial Review

Financial performance during the year

Results for the year to 31 March	2011 £'000	2010 £'000
Group turnover	274,595	237,979
Operating profit excluding joint ventures	14,638	12,142

In the year to 31 March 2011 the Group achieved revenues of £274.6m including joint ventures (2010: £267.4m). An increase in turnover of 2.5% comes despite the continued planned slow down in Decent Homes work as the UK Government's initiative nears completion.

A focus on efficient working allowed the Group to generate an operating profit (before exceptional) of £14.6m, representing an increase of 20.6% from the previous year along with a strong operating margin performance which has increased from 4.9% in 2009/10 to 5.5% in 2010/11. This underlying result does not take into account the £3.7m exceptional item resulting from the revaluation of a provision.

Morrison incurred higher costs as we invested in a stronger corporate centre, notably in our CSR and IT teams and incurred start up losses on some of the new contracts during their build-up phase. However, these costs were more than offset by efficiency improvements on existing contracts, leading to better utilisation of the workforce along with the successful management of many new contracts even during their start-up period.

The success of Morrison over the last twelve months in bidding for new business has led to the mobilisation of twelve new contracts since March 2010. The administration in the year of two large competitors provided a number of opportunities to Morrison including winning new work with One Vision Housing in the North West, and Midland Heart in the Midlands. The Group continues to investigate other opportunities and enjoys a strong opportunity pipeline of contracts that show good alignment to Morrison's strengths and core proposition.

Projects designed to exploit synergies within the organisation and achieve economies of scale relating to the purchase of materials and reduction in back office infrastructure will be completed in 2011/12, and are expected to generate permanent efficiency savings in future accounting periods.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)

Financial position at the balance sheet date

The Group remains in a strong net asset position at the balance sheet date (2011: £27.5m; 2010: £16.0m); with the increase generated mainly by a revaluation of its provision which resulted in a settlement gain. The Company also has undrawn bank funding lines available.

Our focus on reducing Morrison's working capital cycle has continued. An increase in contract debtors of 45% to £43.5m (2010: £30.0m) reflects strong revenues in the approach to year-end, with the number of days' sales held in net trade debtors and amounts recoverable on contracts moving from 39 days in 2010 to 41 days at 31 March 2011. Creditor days at the end of March 2011 were 44 days (2010: 39 days).

Net cash of £23.2m is stated after dividend payments (including minority dividends) of £7.5m, and represents an increase of £3.0m on the 2009/10 figure, despite a tax payment of £2.5m (£0.2m lower than prior year). The Group has achieved a cash conversion ratio of 96%, continuing the strong performance seen in the previous year (2010: 92%), but reflecting the investment required in the mobilisation of new contracts.

Morrison's operations require only a limited fixed asset base, although the Group continues to invest in its future growth through the acquisition and development of new IT solutions and systems.

Financial risk management

Morrison's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. Morrison has in place robust controls that seek to limit the adverse effects in the financial performance of the company by monitoring potential financial risks the company is subject to.

The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. Financial risk management is monitored by the board of directors and the policies set by the board of directors are implemented by the company's treasury department. The department has procedures in place that manage both interest rate and credit risk.

Price risk

Morrison is only exposed to minimal price risk on commodities as a result of its operations. Given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit Risk

Morrison has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the board of directors.

Liquidity Risk

Morrison's operations are funded by cash generated from ongoing activities. The company maintains a number of long and short term debt finance options designed to ensure it has sufficient available funds, although at present none of these have been utilised.

Interest rate cash flow risk

Morrison at present does not have any interest bearing assets or interest bearing liabilities. Debt finance is available at a predetermined rates and the company maintains access to debt at a predetermined rate to ensure certainty of any future interest cash flows. This will be revisited should the company's operations change in size or nature.

Morrison Facilities Services Limited
Directors' report for the year ended 31 March 2011 (continued)

Principal risks and uncertainties

Rapid Growth

Morrison's pace of growth and change has accelerated. The business comprises many more contracts than it did just a few years ago, and mobilises new contracts almost every month. The pace of growth brings the risk that business processes, IT systems, and people/structures will show strain leading to a dip in performance. The business is investing more in process development and roll-out, in IT systems, and in stronger management structures so as to provide the headroom for continued successful growth.

Mobilisation risks

Morrison recognises the risk that a poorly mobilised contract can lead to poor customer, people, or performance outcomes. We therefore assign a mobilisation team made up of specialists from around the business and the local region to each new contract. This team runs mobilisations to an agreed timetable and schedule, regularly reporting progress to senior management. We have also implemented a 'mobilisation hub' on our company intranet that captures best practice and guides managers through new mobilisations.

Government spending

Morrison works for local authorities and housing associations and so is exposed to local government spending budgets which are under great pressure. The majority of the work we do is 'responsive repairs' which are urgent repairs that the client needs to ensure that their home is of a sound standard and this work has so far proved less susceptible to economic challenges with revenue and cash conversion proving resilient. Some clients are outsourcing their repairs work for the first time to help them to manage their repairs cost and the Company is winning new business and has a healthy order pipeline. However, in light of the focus on reducing public spending, Morison is focused on tight cost control and delivery of higher quality at lower cost.

Pensions

The Company contributes to both defined contribution and defined benefit pension schemes. The financial statements include contributions to all schemes in the profit and loss account, and an adjustment relating to the surplus or deficit associated with defined benefit schemes under FRS17. Wherever possible, Morrison's liability for ongoing defined benefit scheme deficits is contractually limited by a cap or collar arrangement.

Contract retention

The majority of Morrison's contracts are with public authorities. Both the funding of programmes and the political support for private involvement may be subject to change.

Local Government procurement is driven by the requirement to achieve best value for the taxpayer. This puts pressure on margins within the business and influences the level of risk transfer to the contractor. It also means that in a competitive environment there is a risk that contracts are only held for one contractual period as the process is primarily price driven.

Morrison spreads its contractual risk by maintaining a varied client portfolio. When assessing potential contracts, we consider whether they fit with Morrison's core skills and our established supply chain. During the contract we work hard to build strong relationships with the client and to continue to innovate to help reassure the client of our continued commitment to quality and value when the contract reaches re-bid.

Health and Safety

The Group's operations are by their nature subject to health and safety risks. The potential for accidents and non-compliance with relevant legislation drives a constant focus on safe working practices across all parts of the Group.

Morrison is committed to providing a safe working environment and holds national certification to BS OHSAS 18001 Occupational Health and Safety under the monitoring of the British Safety Council. This internationally-recognised specification promotes a safe and healthy working environment through a framework that allows an organisation to consistently identify and control its health and safety risks. We also invest in training, regular 'toolbox talks' on safety and director safety tours.

Systems dependence and reliability

The Company uses IT and management processes to coordinate a large volume of work, appointments and tradespersons. A significant IT or other system failure would be disruptive.

The Company mitigates this risk through IT resilience and disaster recovery plans designed to restore service and a business continuity plan for each operational site.

Governance

The board and management team

The Company is a wholly-owned subsidiary of Morrison plc.

Morrison has a Board of six directors Comprising:

- the Chairman and Group Finance Director of AWG acting as non-executive directors;
- two independent non-executive directors; and
- the Company's Chief Executive Officer and Chief Financial Officer.

The directors of the Company during the year were, and continue to be:

- Sir Adrian Montague, Non-executive Chairman
- Guy Wakeley, Chief Executive Officer
- Nigel Howell, Chief Financial Officer
- Scott Longhurst, Non-executive director
- Edward Brown, Non-executive director
- James Michael Robinson, Non-executive director

The Morrison Chief Executive Officer is responsible for the overall performance of the Company. Each operating division is headed by a Divisional Managing Director and is run by its own management and administrative team. They are supported by a small number of central functions comprising business development, finance, procurement, human resources, IT, and legal functions.

Operation of the board

The Board meets at least ten times each year to review the Company's strategy and performance. There is a regular Board cycle of additional topics comprising subjects such as health and safety review, competitor analysis, and a longer Strategy Review day. The executives of the Company are regularly invited to attend Board meetings where appropriate.

A review of the Board's effectiveness is conducted by circulating a confidential questionnaire to each director of the Board. This is reviewed by the Chairman, an analysis report is subsequently produced and the findings are discussed at the next Board meeting.

Each Board member conducts at least one safety visit per year. The Chief Executive Officer and the Chief Financial Officer conduct at least four health and safety visits per year to different contract areas. In this way, the directors ensure that the priority given to safe working is recognised across the business and further enables the Board to assess the working practices of the Company. Health and safety performance, all accidents, and lessons from any near-miss events are reviewed and considered at every Board meeting.

Performance evaluation

Morrison uses a balanced score card of measures across its three core values of Customers, People, and Performance. These are measured and reported to senior managers at least monthly, with some leading measures reported weekly. Significant health & safety incidents are notified to all senior managers immediately by text message under the Company's Incident Management procedure.

Performance management is a key tenet of the way we work. In addition to company-wide objectives, each employee has annual targets set in their annual performance review which include development goals. These are reviewed with their respective managers at least twice in a given year.

Performance measures are reported regularly and a series of management review meetings ensure that we respond quickly to off-target performance. We encourage a 'learning culture' so that off-target performance becomes a spur to improvement by applying lessons and striving for higher targets.

We believe that the Morrison approach to Performance Management is one of the unique attributes of the 'brilliant execution' strategy and lies at the heart of our performance improvement during the year.

Corporate planning

The Morrison executive team devises detailed action plans each year in line with a three-year strategy. The directors continuously assess progress against these action plans using annual budget, forecast and re-forecast processes to ensure the operational and financial aims and objectives of the Company are met.

Internal control and risk management

A formal risk register is completed every month and is reviewed at Board meetings. The Company also maintains and monitors a set of detailed policy documents across all areas of operations. Key areas in which such policies exist include health and safety, procurement, and governance (both in terms of competition and bribery).

Internal audit

The Company has a planned programme of internal audits that include quarterly and annual group-wide self-assessments in relation to internal control systems. The internal audit programme covers a broad range of financial and non-financial processes to ensure internal controls are in place and are effective.

The Company also has a whistle-blowing line allowing anyone to report concerns anonymously. The line is manned independently by the company's internal auditors to ensure confidentiality and to ensure that appropriate responses to any issues raised are made.

External audit

The external audit function is operated by PricewaterhouseCoopers LLP, with the completion of year end audits for all legal entities within the Group.

Audit Committee

Morrison has an audit committee comprising three non-Executive directors – Scott Longhurst (Chair of Audit Committee), Michael James Robinson, and Edward Brown. Scott Longhurst has the experience to lead insightful discussions into the Company's controls and performance. The Audit Committee meets twice annually to review the Company's results and internal controls.

As well as the Morrison Chief Executive Officer and Chief Financial Officer, the Company's internal and external auditors are invited to attend regular Audit Committee meetings to report progress against agreed internal control and risk management objectives.

Budgeting and forecasting

A detailed annual Budget is completed in February each year for agreement by the Board. Further forecasts are prepared and approved each quarter to provide an update on company performance and expectations.

Financial reporting

Management Accounts are produced both weekly and monthly and are reviewed both locally and centrally. This includes assessment of key financial information and drivers of operational performance to facilitate comparability and a focus on areas of off-target performance.

Actual results are compared to both the approved budget, and the most recent forecast on a monthly basis. Any significant deviations from either the forecast or the budget are investigated and to the extent possible, resolved.

Bid approval

A Business Development team operates within Morrison and is responsible for completing all new business tenders.

All new contracts must contribute to Morrison's strategic and financial targets, which are measured primarily in terms of sustainable profit margin and cash generation. In addition, the risk profile of contracts must be acceptable. As such, all bids are reviewed and signed either by the Board and/or executive as appropriate prior to submission.

As part of Morrison's ethical and fair competition stance and its commitment to compliance with the Bribery Act 2010, all managers, senior or otherwise, with client contact attend an annual competition compliance and Bribery Act training seminar. Each and every attendee must sign an undertaking to confirm receipt of the training and confirm that they will, in all matters relating to their conduct as a Morrison employee, compete fairly and within the policy.

Expenditure approval

An approved Scheme of Delegation identifies those in the business with authority to approve expenditure. Systems exist and are monitored to ensure compliance with this structure. High cost items and projects are subject to further investment appraisal and sign off requirements.

An increasing number of transactional and administrative processes are being centralised to improve efficiency and focus on performance in the regions. This has led to the creation of a shared services centre located near Glasgow operating a centralised Accounts Payable and HR service.

Cash

Morrison uses Barclays Bank plc as its preferred banking partner and has banking facilities in place that, to date, have not been utilised. Cash forecasts are completed and reviewed on both a weekly and monthly basis and the Company continues to generate positive operating cash flows in line with its objectives

Directors' qualifying third party indemnity provisions

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Payment of suppliers

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

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

The directors 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.

Statement of disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.Auditors

The auditors, PricewaterhouseCoopers LLP, are deemed to be re appointed as auditors in accordance with Companies Act 2006.

By order of the board,

Nigel Howell

Nigel Howell
Director
Morrison Facilities Services Limited

1 June 2011

Registered Office
Morrison House
Ellismuir Way
Tannochside Park
Uddingston
Glasgow
G71 5QA
Registered in Scotland (number SC120550)

Morrison Facilities Services Limited
Independent auditors' report to the members of Morrison Facilities Services Limited

Independent auditors' report to the members of Morrison Facilities Services Limited

We have audited the Group and parent company financial statements ("the financial statements") of Morrison Facilities Services Limited for the year ended 31 March 2011 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group Cash Flow Statement, the notes to the Group Cash Flow Statement the Group and Company balance sheets 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 Statement of directors' responsibilities set out on page 27 are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 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 and 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2011 and of the group's profit and cash flow for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Morrison Facilities Services Limited
Independent auditors' report to the members of Morrison Facilities Services Limited (continued)

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 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

David Martin

David Martin (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

1 June 2011

Morrison Facilities Services Limited
Group profit and loss account for the year ended 31 March 2011

Note		2011 £000	2010 £000
2	**Turnover**		
	Total Group and share of joint ventures	274,595	267,443
	Less: share of turnover of joint ventures	-	(29,464)
	Group turnover	**274,595**	**237,979**
	Cost of sales	(250,179)	(216,624)
	Gross profit	24,416	21,355
	Administrative expenses	(9,778)	(9,213)
3	**Group operating profit**	**14,638**	**12,142**
4	Share of exceptional items in joint venture	3,683	-
	Share of operating profit in joint venture	531	539
	Group operating profit including joint venture	**18,852**	**12,681**
5	Interest receivable/(payable)	10	(9)
5	Other finance income/(expense)	709	(722)
	Profit on ordinary activities before taxation	**19,571**	**11,950**
6	Tax on profit on ordinary activities	(4,542)	(3,540)
	Profit on ordinary activities after taxation	**15,029**	**8,410**
	Equity minority interest	(918)	(1,012)
22	***Profit for the financial year***	**14,111**	**7,398**

There was no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents.

The activities in both years relate to continuing operations.

Group statement of total recognised gains and losses for the year ended 31 March 2011

Note		2011 £000	2010 £000
22	Profit for the financial year		
	- Group	13,729	7,138
	- Joint Venture	382	260
		14,111	7,398
24	Actuarial gain/(loss) on pension scheme	6,710	(3,870)
	Current tax deductions allocated to actuarial losses	-	490
	Movement on deferred tax relating to pension asset	(1,948)	591
	Minority share of actuarial (gain)/loss	(865)	1,091
	Effect of tax rate change	34	-
	Share of JV actuarial losses	-	(1,469)
	Share of tax on JV actuarial losses	-	411
	Total recognised gains for the year	**18,042**	**4,642**

Morrison Facilities Services Limited
Group and company balance sheets at 31 March 2011

Note		Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
	Fixed assets				
10	Intangible fixed assets	-	107	-	107
11	Tangible fixed assets	2,996	2,859	2,798	2,480
13	Investment in subsidiary undertakings	-	-	1	1
13	Interests in joint ventures:				
	- Share of gross assets	374	5,096	-	-
	- Share of gross liabilities including pension	(163)	(7,987)	-	-
	- Amounts included in provisions	-	2,891	-	-
	- Shares	-	-	-	-
	Total investments	211	-	1	1
		3,207	2,966	2,799	2,588
	Current assets				
14	Stock	1,257	894	889	623
15	Debtors	45,867	36,511	39,879	29,446
	Cash at bank and in hand	23,222	20,234	12,047	10,441
		70,346	57,639	52,815	40,510
16	Creditors: amounts falling due within one year	(50,721)	(39,580)	(34,377)	(20,079)
	Net current assets	**19,625**	**18,059**	**18,438**	**20,431**
	Total assets less current liabilities	22,832	21,025	21,237	23,019
17	Creditors: amounts falling due after more than one year	(48)	(125)	(48)	(125)
18	Provisions for liabilities	(68)	(2,891)	(68)	(2,891)
	Net assets excluding net pension deficit	**22,716**	**18,009**	**21,121**	**20,003**
24	Pension net asset/(deficit)	4,758	(2,038)	(1,073)	(3,478)
	Net assets	**27,474**	**15,971**	**20,048**	**16,525**
	Capital and reserves				
21	Called up share capital	10,000	10,000	10,000	10,000
22	Profit and loss reserve	17,379	6,837	10,048	6,525
23	**Total shareholder's funds**	**27,379**	**16,837**	**20,048**	**16,525**
	Minority interest	95	(866)	-	-
	Capital employed	**27,474**	**15,971**	**20,048**	**16,525**

The financial statements on pages 30 to 51 were approved by the board of directors on 1 June 2011 and signed on its behalf by:

Nigel Howell

Nigel Howell
Director
Morrison Facilities Services Limited
Registered in Scotland (number SC120550)

Morrison Facilities Services Limited
Group cash flow statement for the year ended 31 March 2011

Notes		2011 £000	2010 £000
(a)	**Net cash inflow from operating activities**	**15,721**	**13,449**
	Returns on investments and servicing of finance		
	Interest received	23	-
	Interest paid	(13)	(12)
	Dividends paid to minority interests	(724)	(740)
	Net cash inflow from returns on investments and servicing of finance	15,007	12,697
	Taxation	(2,524)	(2,693)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(1,995)	(1,731)
	Net cash outflow for capital expenditure and financial investment	(1,995)	(1,731)
	Equity dividends paid to shareholders	(7,500)	(6,050)
	Net cash inflow before use of liquid resources and financing	2,988	2,223
(b)	**Increase in net cash**	**2,988**	**2,223**

Notes to the group cash flow statement for the year ended 31 March 2011

(a) **Cash flow from operating activities**

Reconciliation of operating profit to net cash inflow from operating activities:

	2011 £000	2010 £000
Operating profit	14,638	12,142
Depreciation charge	1,858	1,777
Amortisation of intangible assets	107	107
Profit from joint ventures and associates including exceptional items	4,213	539
Pension credit under FRS 17	(6,511)	(2,244)
	14,305	12,321
Working capital:		
(Increase) in Stock	(363)	(67)
(Increase)/decrease in Debtors	(9,325)	7,261
Increase/(decrease) in Creditors	11,104	(6,066)
	1,416	1,128
Total net cash inflow from operating activities	**15,721**	**13,449**

(b) **Reconciliation in net debt 2011**

	1 April 2010 £m	Cash flows £m	31 March 2011 £m
Cash at bank and in hand	20,234	2,988	23,222

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011

1 **Accounting policies**

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

a) **Basis of consolidation**

The Group financial statements comprise a consolidation of the financial statements of the Company and all of its subsidiaries to 31 March 2011. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. An entity is treated as a joint venture if the Group jointly controls that entity together with one or more other parties under a contractual arrangement. The Group's share of turnover, operating profit and interest in joint ventures has been reported on the face of the profit and loss account and the Group's share of gross assets and liabilities has been reported on the balance sheet. Intra group sales and profit are eliminated fully in consolidation. Uniform accounting policies have been used throughout the Group.

b) **Turnover**

Turnover represents the income received and receivable (excluding value added tax) in the ordinary course of business for goods and services provided. Revenue is recognised on contracts when the service is provided.

c) **Goodwill**

On the acquisition of a business, fair values are attributed to the net identifiable assets/liabilities acquired. Goodwill represents the difference between the purchase consideration and the fair values. Positive goodwill arising on consolidation is capitalised in the financial statements as an intangible asset and amortised on a straight line basis over its useful economic life.

d) **Associates and joint ventures**

The Group's share of turnover and profit and loss of joint ventures is included in the consolidated profit and loss account. The Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned or from coterminous management accounts if the balance sheet date in those audited financial statement is greater than three months from the balance sheet date of the relevant Group financial statements.

e) **Tangible fixed assets and depreciation**

Fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation of assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets over their estimated economic lives, which are principally as follows:

Buildings	30 - 60 years
Fixed plant	3 - 8 years
Vehicles, plant and equipment	3 - 8 years

Assets in the course of construction are not depreciated until they are commissioned.

Interest costs are not capitalised into the cost of fixed assets.

f) **Leased assets**

Rental costs arising under operating leases are expensed over the term of the lease.

Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

g) **Investments**

Investments held as fixed assets are stated at cost less any provision for impairment.

h) **Stocks and work in progress**

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value and is included in debtors when turnover is recognised (see note 1b). Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred to complete and deliver the goods or services.

1 Accounting policies (continued)

i) Pension costs

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by actuarial calculations. The Group has both defined benefit and defined contribution plans. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group in a separate trustee administered fund. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

The amounts charged to operating profit are current service costs, gains and losses and settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. The interest cost and the expected return on assets net of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

j) Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment for accounts and taxation purposes, of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at the rates at which it is estimated that taxation will arise.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future periods.

Deferred taxation is not discounted.

k) Pre-contract costs

The Company's policy is to write off pre-contract costs as an expense in line with UITF 34 *Pre-contract costs*.

2 Segmental analysis

All results are derived from a single class of business within the United Kingdom. Turnover includes sales to other Anglian Water Group companies of £nil (2010: £nil).

3 Group operating profit

	2011 £000	2010 £000
Operating profit is stated after charging:		
Amortisation of goodwill (see note 10)	107	109
Depreciation (see note 11)	1,858	1,775
Operating lease rentals- Plant and machinery	1,272	1,534
Operating lease rentals- Other	5,230	4,042
Fees paid to the auditors:		
- for audit work (including £103,000 (2010: £59,000) in respect of the Company)	123	120
- for non-audit services (including £nil (2010: £nil) in respect of the Company)	-	19

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011 (continued)

4 Exceptional items

	2011 £000	2010 £000
Joint venture exceptional item	**3,683**	-

Following the revaluation of a provision in the group's joint venture, a settlement gain has been recognised in the profit and loss account.

5 Interest receivable/(payable) and other finance income/(expense)

	2011 £000	2010 £000
Interest receivable		
Bank interest receivable	19	12
Interest payable and similar charges		
Other loans	(9)	(24)
Group interest receivable/(payable) (net)	10	(12)
Share of joint venture interest receivable (net)	-	3
Total net interest receivable/(payable) (net)	**10**	**(9)**
Other finance income/(expenses) – interest on retirement benefits		
Net interest on pension fund obligations (see note 24)	709	(560)
Share of joint venture net interest on pension fund obligations	-	(162)
	709	**(722)**

6 Tax on profit on ordinary activities

	2011 £000	2010 £000
Analysis of charge in the year		
Current tax		
UK corporation tax		
- current year	3,874	3,512
- adjustment in respect of prior years	-	(7)
Total UK tax – group	3,874	3,505
Total current tax – group	3,874	3,505
Share of joint venture and associates taxation (all UK current year)	149	120
Total current tax	**4,023**	**3,625**
Deferred tax		
Charge for timing differences arising in year		
- UK	567	(78)
Effective tax rate change	(48)	-
Adjustments in respect of prior years	-	(7)
Total deferred tax	**519**	**(85)**
Tax on profit on ordinary activities	**4,542**	**3,540**

Adjustments in respect of prior years arise from the agreement of open tax computations.

6 Tax on profit on ordinary activities (continued)

Factors affecting tax charge for the year (including exceptional items)

The tax for the year is lower (2010: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2011 of 28% (2010: 28%). The differences are explained below:

	2011 £000	2010 £000
Profit on ordinary activities before taxation	**19,571**	**11,950**
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2010: 28%)	5,481	3,346
Effects of:		
Items not deductible for tax purposes	66	148
Accounting for depreciation not eligible for tax purposes	2	11
Accounting depreciation in excess of capital allowances for the year	31	46
Capital allowances in the year excess depreciation	84	-
Short-term timing differences	(1,492)	32
Tax losses carried forward	-	68
Joint venture tax	(149)	(146)
Utilisation of losses which cannot be relieved in the year	(149)	-
Total current tax	**3,874**	**3,505**

Factors affecting the future tax charge

The Finance Act (No2) 2010 was substantially enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. These announcements have been further updated in the budget 2011 on 23 March 2011, with a further 1% reduction (i.e. to 26%) proposed for the financial year beginning 1 April 2011. The deferred tax at 31 March 2011 has therefore been re-measured accordingly as this additional change was enacted on 29 March 2011.

Corporation tax rates will continue to reduce by a further three one percent cuts to 23% by the financial year beginning 1 April 2014. As at the balance sheet date these further proposed changes to the rates had not been substantially enacted and therefore are not recognised within these financial statements.

7 Employees and directors

	2011 £000	2010 £000
Staff costs for the Group during the year:		
Wages and salaries	87,797	75,574
Social security costs	7,188	5,633
Pension costs	7,775	6,966
	102,760	**88,173**

Average monthly number of full time equivalent persons including executive directors employed by the Group:	2011 Number	2010 Number
Facilities Services	2,894	2,469

Directors	2011 £000	2010 £000
Aggregate emoluments	860	1,090
Retirement benefits accrued under defined benefit schemes	-	5
Company contributions to defined contribution pension schemes	82	76
	942	**1,171**

7 Employees and directors (continued)

	2011 £000	2010 £000
Highest paid director		
Aggregate emoluments	414	418
Company contributions to defined contribution pension schemes	45	40
	459	**458**

Two (2010: two) directors are paid for their services to the Group as a whole by other group companies, and their emoluments are not included in the figures above. The two non-executive directors are not entitled to any pension provision from the Company. The retirement benefits for the remaining directors are through the Group's defined contribution scheme.

8 Profit of parent company

Morrison Facilities Services Limited has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The profit after taxation for the financial year dealt with in the financial statements of the parent company is disclosed in note 22.

9 Dividends

	2011 £000	2010 £000
Equity - ordinary		
Final paid: 0.452p (2010: 0.25p) per £1 share	4,526	2,500
Interim paid: 0.297p (2010: 0.355p) per £1 share	2,974	3,550
	7,500	**6,050**

In addition, one of the Group's subsidiaries paid a dividend which resulted in a payment of £725,000 to the minority shareholder.

10 Intangible fixed assets

Group and Company	**£000**
Cost	
At 1 April 2010	1,196
Written off	(1,196)
At 31 March 2011	-
Accumulated amortisation	
At 1 April 2010	(1089)
Charge for the year	(107)
Written off	1,196
At 31 March 2011	-
Net book amount at 31 March 2011	-
Net book amount at 31 March 2010	107

Intangible assets comprised goodwill, which was being amortised over the life of the contract to which it related. This was under 20 years.

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011 (continued)

11 Tangible fixed assets

Group	Land and buildings £000	Vehicles, plant and equipment £000	Total £000
Cost			
At 1 April 2010	871	9,559	10,430
Additions	144	1,851	1,995
At 31 March 2011	**1,015**	**11,410**	**12,425**
Accumulated depreciation			
At 1 April 2010	691	6,880	7,571
Charge for the year	183	1,675	1,858
At 31 March 2011	**874**	**8,555**	**9,429**
Net book amount at 31 March 2011	**141**	**2,855**	**2,996**
Net book amount at 31 March 2010	180	2,679	2,859

Company	Land and buildings £000	Vehicles, plant and equipment £000	Total £000
Cost			
At 1 April 2010	468	8,035	8,503
Additions	144	1,792	1,936
At 31 March 2011	**612**	**9,827**	**10,439**
Accumulated depreciation			
At 1 April 2010	312	5,711	6,023
Charge for the year	183	1,435	1,618
At 31 March 2011	**495**	**7,146**	**7,641**
Net book amount at 31 March 2011	**117**	**2,681**	**2,798**
Net book amount at 31 March 2010	156	2,324	2,480

12 Capital commitments

Amounts contracted for but not provided for in the financial statements of the Company and the Group at 31 March 2011 are £nil (2010: £119,000).

13 Investments in subsidiaries and joint ventures

	Group		Company	
	2011 £000	**2010 £000**	**2011 £000**	**2010 £000**
Shares in group undertakings				
At 1 April 2010 and 31 March 2011	**-**	**-**	**1**	**1**
Interest in joint ventures				
At 1 April 2010	-	-	-	-
Profit after tax for the year	382	260	-	-
Share of net actuarial loss of JV pension	-	(1,059)	-	-
Transfer(from)/to provisions (note 18)	(171)	799	-	-
Net book amount at 31 March 2011	**211**	**-**	**-**	**-**
Total fixed asset investments	**211**	**-**	**1**	**1**

Morrison Facilities Services Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

13 Investments in subsidiaries and joint ventures (continued)

At 31 March 2011 the Group's investments were:

Subsidiary	Country of Incorporation	Principal activity	Proportion of ordinary £1 shares held
Morrison Scotland (Services) Limited (Formerly known as Maintenance and Property Care Limited)	Scotland	Maintenance and repair services	67%
Manchester Working Limited	England	Maintenance and repair services	80%
Morrison Scotland LLP	Scotland	Maintenance and repair services	67%
Joint venture			
Morrison Veolia Limited	England	Dormant	50%

All subsidiaries have a year end of 31 March and are included within the Group consolidated financial statements. The voting rights in respect of each subsidiary are in the same proportion as the ordinary shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation.

14 Stock

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Raw materials and consumables	**1,257**	**894**	**889**	**623**

In the Directors' opinion, there is no material difference between the replacement cost of stock and its historical cost as stated above.

15 Debtors

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Amounts falling due within one year:				
Trade debtors	11,526	18,106	8,237	12,682
Amounts recoverable on contracts	32,017	11,931	25,336	6,892
Amounts owed by joint ventures and associates	-	2,738	-	2,738
Amounts owed by group undertakings	12	-	4,910	4,807
Deferred tax (see note 19)	610	579	519	486
Other taxation and social security	-	23	-	19
Other debtors	584	664	556	664
Prepayments and accrued income	1,118	2,470	321	1,158
	45,867	**36,511**	**39,879**	**29,446**

Amounts owed by group undertakings are unsecured and are repayable on demand.

16 Creditors: amounts falling due within one year

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Trade creditors	7,511	4,586	4,691	3,569
Payments in advance	3,850	3,034	-	-
Amounts owed to group undertakings	306	-	5,382	243
Corporation tax	2,843	3,020	319	1,525
Other taxation and social security	7,202	6,860	2,591	4,387
Other creditors	12,417	4,012	6,347	1,177
Accruals and deferred income	16,592	18,068	15,047	9,178
	50,721	**39,580**	**34,377**	**20,079**

Amounts owed to group undertakings are unsecured and are repayable on demand.

17 Creditors: amounts falling due after more than one year

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Payments in advance	**48**	**125**	**48**	**125**

18 Provisions for liabilities

Group and company	Net liabilities for joint ventures £000	Claims £000	Total £000
At 1 April 2010	2,823	68	2,891
Release of provision to the profit and loss account (i)	(2,652)	-	(2,652)
Provision transferred to investments (note 13)	(171)	-	(171)
At 31 March 2011	**-**	**68**	**68**

Net liabilities for joint ventures

The release of the provision represents the settlement gain in the group's joint venture net of current tax (gross: £3,683,000 see note 4)

Claims

The provision represents the Company's obligations in relation to outstanding claims. The provision has not been discounted as the impact would not be material.

19 Deferred taxation

Deferred taxation excluding pension assets/(deficits)	Group £000	Company £000
At 1 April 2010	579	486
Credit for the year	31	33
At 31 March 2011	**610**	**519**

The deferred tax asset is shown in debtors note 15.

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Accelerated capital allowances	567	495	476	427
Other timing differences	43	84	43	59
Undiscounted deferred tax asset	**610**	**579**	**519**	**486**

19 Deferred taxation (continued)

The deferred tax on the net pension liabilities is shown in Note 24. There are deferred tax assets of £575,000 (2010: £769,000) relating to tax losses carried forward which have not been recognised within these financial statements as there is uncertainty as to the timing of their recovery.

Group	2011 £000	2010 £000
Deferred tax (liability)/asset relating to the pension asset/(deficit)		
At 1 April	792	165
Deferred tax charged to the profit and loss account	(550)	36
Deferred tax charged to the statement of total recognised gains and losses: actuarial loss	(1,914)	591
At 31 March	**(1,672)**	**792**

The deferred tax liability of £1,672,000 (2010: asset of £792,000) has been deducted in arriving in the net pension surplus on the balance sheet (note 24).

Company	2011 £000	2010 £000
Deferred tax (liability)/asset relating to the pension asset/(deficit)		
At 1 April	1,352	1,509
Deferred tax charged to the profit and loss account	(161)	36
Deferred tax charged to the statement of total recognised gains and losses: actuarial loss	(814)	(193)
At 31 March	**377**	**1,352**

The deferred tax asset of £377,000 (2010: asset of £1,352,000) has been deducted in arriving in the net pension liability on the balance sheet (note 24).

20 Commitments under operating leases -

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
In one year	360	178	167	182
Between two and five years	819	463	1,150	460
Over 5 years	284	-	377	-
	1,463	**641**	**1,694**	**642**
Company				
In one year	360	178	167	182
Between two and five years	555	459	886	453
Over 5 years	284	-	377	-
	1,199	**637**	**1,430**	**635**

21 Called up share capital

	Group and Company 2011 £000	Group and Company 2010 £000
Authorised		
10,000,000 ordinary shares of £1 each	**10,000**	**10,000**
Allotted, called up and fully paid		
10,000,000 ordinary shares of £1 each	**10,000**	**10,000**

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011 (continued)

22 Profit and loss reserve

	Group £000	Company £000
At 1 April 2010	6,837	6,525
Profit for the year	14,111	9,357
Dividend	(7,500)	(7,500)
Actuarial gain on pension scheme (note 24)	6,710	2,480
Movement on deferred tax relating to pension asset	(1,914)	(814)
Minority share of actuarial losses	(865)	-
At 31 March 2011	17,379	10,048
Pension asset/(deficit)	4,758	(1,073)
Profit and loss reserve excluding pension asset/(deficit)	**12,621**	**11,121**

23 Reconciliation of movement in Shareholder's funds

Group	2011 £000	2010 £000
Profit for the year	14,111	7,398
Other recognised gains and losses relating to the year (shown in STRGL)	3,931	(2,756)
Dividend	(7,500)	(6,050)
Net change in shareholder's funds	10,542	(1,408)
Opening shareholder's funds	16,837	18,245
Closing shareholder's funds	**27,379**	**16,837**

Company	2011 £000	2010 £000
Profit for the year	9,357	3,539
Other recognised gains and losses relating to the year	1,666	487
Dividend	(7,500)	(6,050)
Net change in shareholder's funds	3,523	(2,024)
Opening shareholder's funds	16,525	18,549
Closing shareholder's funds	**20,048**	**16,525**

24 **Pension commitments**

The group pension net deficit is made up as follows:

	MFPS scheme £000	Other funded schemes £000	Total £000
At 31 March 2011	5,831	(1,073)	4,758
At 31 March 2010	1,440	(3,478)	(2,038)

The net pension cost for the year ended 31 March 2011 was £7,775,000 (2010: £6,966,000) of which £5,090,000 (2010: £4,350,000) relates to the current service cost of schemes accounted for as defined benefit schemes and £2,685,000 (2010: £2,616,000) relates to schemes accounted for as defined contribution schemes. The pension contribution due on defined contribution schemes at 31 March 2011 was £nil

The Group has entered into a number of guarantee arrangements for defined benefit pension schemes in the normal course of business. Whilst defined benefit pension scheme liabilities are recognised in full in accordance with FRS17 on the balance sheet, short term volatility and changes in valuation assumptions may cause the value of the liabilities to be materially different at the point at which they crystallise.

AWG and Morrison Care Plan

The Company is a member of the Anglian Water Group. Pension arrangements for the majority of the Morrison Facilities Services Limited group's employees are of the defined benefit type, through the AWG Pension Scheme and were with the Morrison Care Plan until the disposal of Morrison Utility Services Limited in May 2008. This scheme is accounted for as a defined contribution scheme. The Morrison Facilities Services Limited group's actuaries are Aon Consulting. Further details may be found within the financial statements of Osprey Holdco Limited.

These defined benefit arrangements are closed to new members, who are eligible instead for entry to the Group's defined contribution schemes. The current service cost of these closed schemes will increase as the members approach retirement. The Morrison Pension & Life Assurance Plan was closed to future service accrual on 31 March 2006, a new Morrison Care Plan has been established for its members with effect from 1 April 2006 and accrual ceased to this scheme in May 2008 following the disposal of Morrison Utility Services Limited. The members in that scheme that remained in the Morrison Group have been transferred to the Morrison Facilities Pension Scheme.
The administration and investment of the pension funds are maintained separately from the finances of the Group.

The share of assets and liabilities of these pension schemes which relate to employees of the Company cannot be separately identified on a consistent and reasonable basis due to the number of participant companies within the schemes. Therefore, the schemes are accounted for as defined contribution schemes for the Company and Group.

Following a restructuring, the Company will no longer have employee members of the AWG Defined Benefit pension scheme and has fully settled its liabilities as an exiting employer.

MFPS

The Company also operates a defined benefit pension plan, the Morrison Facilities Pension Scheme "MFPS" (formerly the AWG Pension & Life Assurance Plan) for some of its staff. The assets of the MFPS are held in a separately administered fund.

The contribution rate paid by Morrison Scotland (Services) Limited (formerly known as Maintenance and Property Care Limited) as recommended by the Plan Actuary, was 20.3% (2010: 20.3%) of pensionable salaries with an additional £117,000 per month. Members' contributions are paid in addition. This contribution rate was changed with effect from 31 March 2007 following the Plan's last actuarial valuation. This was the second valuation of the plan.
The employer's best estimate of contributions to be paid to the scheme by next year is £6,680,000.

The administration and investment of the MFPS pension fund is maintained separately from the finances of Morrison Scotland (Services) Limited (formerly known as Maintenance and Property Care Limited) and the Group.

The valuation used for the FRS17 disclosures for MFPS has been based on the formal actuarial valuation as at 1 April 2009, updated by independent actuaries to take account the requirements of FRS17 in order to assess the liabilities of the scheme at 31 March 2011.

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011 (continued)

24 Pension commitments (continued)

The liabilities of the scheme has been valued using the projected unit method and using the following assumptions:

	2011 % p.a.	2010 % p.a.	2009 % p.a.
Discount rate	5.5	5.6	6.3
Inflation rate	3.4	3.5	3.0
Increase to deferred benefits during deferment	3.4	3.5	3.0
Increases to inflation related pension in payment	3.4	3.5	3.0
General salary increases	4.4	4.5	4.0
Expected return on asset at year end	6.2	6.1	5.5

	2011 year	2010 year	2009 year
Longevity at age 65 for current pensioners			
- Men	20.3	20.2	18.5
- Women	22.5	22.4	20.6
Longevity at age 65 for future pensioners			
- Men	21.7	21.6	19.5
- Women	24.1	24.0	21.5

The long-term expected rate of return and the assets in the MFPS scheme are:

	2011 Expected rate of return % pa	2011 Fair value of scheme assets £000	2010 Expected rate of return % pa	2010 Fair value of scheme assets £000
Equities	7.3	23,900	7.5	16,600
Corporate Bonds	5.5	14,440	5.6	1,070
Gilts	4.3	12,790	4.5	8,760
Property	6.3	1,430	6.5	1,500
Alternative	6.3	11,340	6.5	20,520
Other	0.5	3,600	0.5	9,790
Total assets		**67,500**		**58,240**
Fair value of scheme liabilities		(59,620)		(54,760)
Surplus in the scheme		7,880		3,480
Amount of surplus not recognised		-		(1,480)
Surplus recognised in the financial statements		7,880		2,000
Related deferred tax liability		(2,049)		(560)
Net pension surplus		**5,831**		**1,440**

24 Pension commitments (continued)

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class net of investment expenses. The expected return on equities is determined as gilt yields plus a 3% equity risk premium. The return on bonds is determined by the market yield on long term bonds with an adjustment for defaults. The expected return on property is determined as gilt yields plus a 2% risk premium. The expected return on other assets is set by reference to base rates.

The pension expense for this defined benefit scheme was:

Profit and loss account	2011 £000	2010 £000
Current service cost	(2,660)	(2,140)
Charge to operating profit	**(2,660)**	**(2,140)**
Expected return on pension scheme assets	3,269	2,200
Interest on pension scheme liabilities	(3,130)	(2,310)
Amount credited/(charged) to other finance income	**139**	**(110)**
Charge to profit on ordinary activities before taxation	**(2,521)**	**(2,250)**

Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses

	2011 £000	2010 £000
Actual return on pension scheme less expected return	2,970	9,450
Experience gains and losses in scheme liabilities	-	(1,200)
Change in assumptions underlying the present value of the schemes liabilities	(220)	(13,420)
Actuarial gains and losses in scheme	2,750	(5,170)
Adjustment to gains and losses in relation to recognition of surplus	1,480	620
Actuarial gains/(losses) recognised	**4,230**	**(4,550)**

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £2,750,000.

Reconciliation of fair value of scheme assets

	2011 £000	2010 £000
At 1 April	58,240	43,110
Expected return on scheme assets	3,269	2,200
Employers' contributions	4,171	4,000
Members' contributions	590	690
Benefits paid	(1,740)	(1,210)
Actuarial gain	2,970	9,450
At 31 March	**67,500**	**58,240**

24 Pension commitments (continued)

Reconciliation of scheme liabilities

	2011	2010
	£000	£000
At 1 April	54,760	36,210
Current service costs	2,660	2,140
Members' contributions	590	690
Interest cost	3,130	2,310
Benefits paid	(1,740)	(1,210)
Actuarial loss	220	14,620
At 31 March	**59,620**	**54,760**

History of schemes

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Surplus/(deficit) at 31 March					
Fair value of scheme assets	67,500	58,240	43,110	43,870	35,190
Present value of scheme liabilities	(59,620)	(54,760)	(36,210)	(36,730)	(38,170)
Amount not recognised	-	(1,480)	(2,100)	(590)	-
Surplus/(deficit) in the scheme	7,880	2,000	4,800	6,550	(2,980)
Related deferred tax (liability)/assets	(2,049)	(560)	(1,344)	(1,834)	894
Surplus/(deficit) recognised at 31 March	**5,831**	**1,440**	**3,456**	**4,716**	**(2,086)**

History of schemes

Actual return on pension scheme assets less expected return	2,970	9,450	(7,020)	1,950	10
Experience gains and losses arising on scheme liabilities	-	(1,200)	850	1,130	(260)
Change in assumptions underlying the present value of the scheme liabilities	(220)	(13,420)	3,810	5,260	9,520
Movement on unrecognised asset	1,480	620	(1,471)	(590)	-
Past service cost offset against surplus not recognised	-	-	-	(210)	-
Amount recognised in the statement of total recognised gains and losses	**4,230**	**(4,550)**	**(3,831)**	**7,540**	**9,270**

24 Pension commitments (continued)

Admitted Body Status Pension Schemes

The Company also has admitted body status to various Local Government Pension Schemes in relation to staff transferred to the Company under contracts for those local governments since 2005. Details of the Group's share of the schemes which are treated as defined benefit schemes are shown below.

The valuation used for FRS 17 has been based on the funding valuations updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes as at 31 March 2011. The Company has not recognised the surpluses on these schemes due to the limits in paragraph 37 of FRS 17. The Company has also not recognised the deficits on these schemes to the extent that they are subject to a maximum in contractual arrangements.

The employer's best estimate of contributions to be paid to these schemes by next year is £2,850,000.

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

Details of experience gains and losses	**2011**	**2010**	**2009**
	%pa	**%pa**	**%pa**
Discount rate	5.5	5.6	6.3
Inflation rate	2.7	3.5	3.0
Increase to deferred benefits during deferment	2.7	3.5	3.0
Increases to inflation related pension in payment	2.7	3.5	3.0
General salary increases	4.4	4.5	4.0
Expected return on assets at year end	6.2	6.1	5.5

	2011	**2010**	**2009**
	year	**year**	**year**
Longevity at age 65 for current pensioners			
- Men	20.3	20.2	18.5
- Women	22.5	22.4	20.6
Longevity at age 65 for future pensioners			
- Men	21.7	21.6	19.5
- Women	24.1	24.0	21.5

The liabilities for the Local Government Pension Schemes are adjusted to use mortality improvements consistent with those adopted by Morrison Facilities Services Limited group.

Morrison Facilities Services Limited
Notes to the financial statements for the year ended 31 March 2011 (continued)

24 Pension commitments (continued)

The long-term expected rate of return and the assets in the other schemes are:

	2011 Expected rate of return	2011 Fair value of scheme assets	2010 Expected rate of return	2010 Fair value of scheme assets
	% pa	£000	%pa	£000
Equities	7.3	54,520	7.5	49,400
Corporate Bonds	5.5	10,720	5.6	9,770
Gilts	4.3	10,910	4.5	10,860
Property	6.3	5,700	6.5	4,700
Other	0.5	3,820	0.5	2,810
Total Assets		**85,670**		**77,540**
Fair value of scheme liabilities		(84,100)		(85,880)
Surplus/ (deficit) in the schemes		1,570		(8,340)
Impact of limit on recognition of deficit		(3,020)		3,510
Deficit recognised in the financial statements		(1,450)		(4,830)
Related deferred tax asset		377		1,352
Net pension deficit recognised in the financial statements		**(1,073)**		**(3,478)**

The pension expense for the defined benefit scheme was:

Profit and loss account	2011	2010
	£000	£000
Current service cost	(2,430)	(2,210)
Charge to operating profit	**(2,430)**	**(2,210)**
Expected return on pension scheme assets	5,120	3,320
Interest charged on pension scheme liabilities	(4,550)	(3,770)
Amount credited/(charged) to other finance income	**570**	**(450)**
Charge on ordinary activities before taxation	**(1,860)**	**(2,660)**

24 Pension commitments (continued)

Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses	**2011 £000**	**2010 £000**
Difference between expected and actual returns on scheme assets	740	16,100
Experience gains and losses arising on the liabilities	3,090	40
Changes in assumptions underlying the present value of the schemes' liabilities	5,180	(15,430)
Actuarial gains and losses in schemes	**9,010**	**710**
Adjustment to gains and losses in relation to recognition of surplus/(deficit)	(6,530)	(30)
Actuarial gains and losses recognised	**2,480**	**680**

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses was £11,770

Reconciliation of fair value of scheme assets

	2011 £000	**2010 £000**
At 1 April	77,540	48,370
Expected return on scheme assets	5,120	3,320
Employers' contributions	2,760	2,540
Members' contributions	810	820
Benefits paid	(1,300)	(1,980)
Bulk transfer	-	8,370
Actuarial gain	740	16,100
At 31 March	**85,670**	**77,540**

Reconciliation of scheme liabilities

	2011 £000	**2010 £000**
At 1 April	85,880	59,460
Current service costs	2,430	2,210
Members' contributions	810	820
Interest cost	4,550	3,770
Benefits paid	(1,300)	(1,980)
Bulk transfer	-	6,210
Actuarial loss	(8,270)	15,390
At 31 March	**84,100**	**85,880**

24 Pension commitments (continued)

History of schemes

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Deficit at 31 March					
Fair value of scheme assets	85,670	77,540	48,370	57,380	53,913
Present value of scheme liabilities	(84,100)	(85,880)	(59,460)	(58,220)	(51,967)
Amount not recognised	(3,020)	3,510	5,700	180	(2,496)
Deficit in the scheme	(1,450)	(4,830)	(5,390)	(660)	(550)
Related deferred tax asset	377	1,352	1,509	185	165
Deficit recognised at 31 March	**(1,073)**	**(3,478)**	**(3,881)**	**(475)**	**(385)**

History of schemes					
Actual return on pension scheme assets less expected return	740	16,100	(11,310)	(2,806)	(253)
Experience gains and losses arising on scheme liabilities	3,090	40	(30)	(4,112)	223
Change in assumptions underlying the present value of the scheme liabilities	5,180	(15,430)	870	4,141	(1,733)
Movement on unrecognised asset	(6,530)	(2,190)	5,516	2,847	1,384
Past service cost offset against surplus not recognised	-	-	-	(510)	-
Amount recognised in the statement of total recognised gains and losses	**2,480**	**(1,480)**	**(4,954)**	**(440)**	**(379)**

25 Contingent liabilities

The Company and its parent company have entered into cross guarantee arrangements relating to (i) a credit facility for a number of group companies, and (ii) a netting arrangement involving the accounts of certain group companies' accounts at Barclays Bank plc. Net indebtedness under these arrangements at 31 March 2011 was £nil (2010: £nil).

The Company has provided a letter of support to its subsidiary company, Morrison Scotland (Services) Limited (formerly known as Maintenance and Property Care Limited), to ensure that it can settle its debts as they fall due for the foreseeable future. It is the opinion of the directors that it is not probable that the letter of support will result in an economic outflow and consequently no amount has been provided within these financial statements.

26 Related party transactions

As a wholly owned subsidiary of Osprey Holdco Limited, advantage has been taken of the exemption granted in FRS 8 not to disclose related party transactions with other wholly owned subsidiaries of the Osprey Holdco Limited Group.

The Company's related party transactions requiring disclosure in the financial statements are summarised below:

	2011 £000	2010 £000
Sales of services to Morrison Veolia Limited (for IT, audit and insurance)	-	26
Purchases of services from Morrison Veolia Limited	-	214
Amounts due from Morrison Veolia Limited	-	2,748

In addition, the Company also charges annual management fees to its joint venture company, Morrison Veolia Limited. In the year to 31 March 2011 this fee was £nil (2010: £1,179,000), and the outstanding amount due from Morrison Veolia Limited for management charges at 31 March 2011 was £nil (2010: £2,470,000).

27 Ultimate and immediate parent company

The Company's immediate parent undertaking is Morrison plc, a company registered in England and Wales.

Osprey Holdco Limited is the parent company of the largest group to consolidate the financial statements of the Company, copies of which can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ. Morrison plc is the parent company of the smallest group to consolidate the financial statements of the Company.

The Directors consider Anglian Water Group Limited (formerly Osprey Jersey Holdco Limited), a company registered in Jersey, to be the ultimate parent company, and controlling party. Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management, and 3i Group Plc.