

BAKER HICKS LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

BAKER HICKS LIMITED

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BAKER HICKS LIMITED

COMPANY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

Directors	CMW Archer SP Crummett MV Lubieniecki JC Morgan
Company Secretary	C Sheridan
Head Office	One Warwick Technology Park Gallows Hill Warwick CV34 6YL
Registered Office	Kent House 14–17 Market Place London W1W 8AJ
Independent Auditor	Ernst & Young LLP Statutory Auditor One Colmore Square Birmingham B4 6HQ

BAKER HICKS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Principal Activities

Baker Hicks Limited (referred to as “the Company”) are a design, engineering and project delivery company specialising in complex infrastructure, process and built environments across the full project life cycle, from design and construction, to handover and operational management.

The Company operates from 5 locations across the UK; namely Derby, London, Manchester, Motherwell and Warwick. Partnering with companies our multi-disciplinary experts employ the latest in digital technologies to deliver complete project solutions for clients in the aviation, defence, life sciences and industry, nuclear, power, public and rail sectors in the most efficient, cost-effective, and sustainable way.

The Company is part of Morgan Sindall Group plc (hereafter, referred to as “the Group”), a leading UK Construction & Regeneration group with annual revenue of £3.6bn, employing around 7,200 employees and operating in the public, regulated and private sectors. The Group reports through five divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration. The Company is reported through the Construction and Infrastructure division.

Business review

The Company’s performance and results for the year exceeded expectations, especially against the backdrop of ongoing challenging and competitive trading conditions. Revenue increased to £62.0m, up 19% from 2021 (£52.3m), with an increased operating profit of £7.6m and operating margin of 12.2%, up from the 2021 figures of £5.2m and 9.8% respectively. In consistency with recent years, the operating margins were comfortably ahead of the Company’s target of 6-8% and is considered an exceptional result. The order book has increased modestly year on year to £30.7m and provides confidence for the financial year ahead.

See below for full details of the Company’s results and key performance indicators:

	Year to 31 December 2022 £000	Year to 31 December 2021 £000	Change
Revenue	62,028	52,319	18.5%
Operating profit	7,555	5,151	31.6%
Operating margin	12.2%	9.8%	11.2%
Profit after tax	6,385	4,377	28.2%
Secured order book ¹	30,700	30,342	1.2%

¹ The ‘forward order book’ represents the Company’s share of future revenue that will be derived from signed contracts or letters of intent.

The Company remains diversified, operating across eight sectors (Aviation, Defence, Highways, Life Sciences, Nuclear, Power and Public Sector) with a wide range of clients, often unique to the sector in which they operate. Other member companies of Morgan Sindall Group are also amongst the Company’s clients.

Overall, the Company’s performance remained robust, despite the uncertainty and disruption caused by the Russia-Ukraine conflict, the cost-of-living crisis combined with a very competitive labour market, and the aftermath of the Covid-19 pandemic and associated restrictions. Whilst the Aviation sector

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continued to be adversely impacted by the aftermath of the pandemic, this was offset by the strong performance of the Power and Public sectors, particularly in Scotland. The Company has also seen increasing volumes of work across its Defence and Life Sciences sectors. As with previous years, the Group's decentralised structure gave the Company the flexibility to swiftly adapt its approach to suit its employees, clients and supply chain partners.

The Company's results reflect a continuation its performance in recent years, which has seen it finish the year ahead of budget and better than expectations. This is considered a notable achievement for the Company in the current climate.

Looking ahead to 2023, the current uncertain economic environment, including significant inflationary pressures on labour and general costs, will continue to be carefully monitored and managed accordingly. The Company will target an operating margin in the range of 6% to 8% and its focus will remain on careful tender selection and efficient project execution, driving sustainable business growth.

Financial position and liquidity

The financial position of the Company is presented in the Balance Sheet. The total shareholder's funds on 31 December 2022 were £16.1m (2021: £9.8m) and the Company had net current assets of £10.6m (2021: £4.9m), including cash of £4.1m (2021: £3.5m).

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As of 31 December 2022, the Group had net cash balances of £355m. The Group also had £15m of committed loan facilities maturing in 2024 and £165m maturing in 2025, which were entirely undrawn as of 31 December 2022.

Key performance indicators

The Company's financial key performance indicators are described in the business review above. No other key performance indicators are deemed necessary to explain the development, performance or position of the Company.

Principal risks and uncertainties

As with any business, the management of the business and the execution of the Company's strategy are subject to a number of risks. The market and economic environment are considered to be the main risks and uncertainties affecting the Company, including health and safety, environmental performance and contractual risk such as mispricing of contracts, managing changes to contracts and contract disputes, poor project delivery, and poor contract selection.

To date the ongoing Russia-Ukraine conflict has had no direct impact on the Company, although higher inflation than in previous financial years has put upward pressure on labour costs. To help manage this, the Company continues to actively engage with its employees in a range of ways as detailed on page seven.

Further discussion of risks and uncertainties in the context of the Group as a whole is provided in the strategic report within the Group's annual report. This is not included within this report.

Financial risk management objectives and policies

The Company's operations expose it to a variety of financial risks, including credit, liquidity and interest rate risks. Below are details on the mitigation strategy for each:

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Credit risk

Policies have been put in place by the Company requiring appropriate credit checks on all potential customers before any contract is commenced. There is no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers outside of the Group.

Liquidity risk

The Company manages its liquidity by ensuring that it will always have sufficient resources to meet its liabilities when they fall due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to its reputation. Liquidity is provided through cash balances and access to the Group's committed bank loan facilities.

Interest rate risk

The Company has interest bearing assets and/or liabilities, including cash balances and overdrafts, all of which have interest rates applied at floating market rates.

Section 172(1) statement

The directors of the Company, when taking strategic, financial and operational decisions, consider what is most likely to promote the success of the Company and the Group in the long term, for the benefit of shareholders and wider stakeholders. They also understand the importance of engaging with key stakeholders and taking their views into account when making decisions, as well as considering the impact of the Company's activities on local communities, the environment, including climate change, and the Group's reputation.

In order to maintain a reputation for high standards of business conduct, they adhere to the Group Code of Conduct which states the Company's commitment to the Human Rights Policy and provides a framework for how to act when engaging with clients, colleagues and suppliers. The Code of Conduct gives employees practical guidance on upholding the Group's core values and delivering on the Group's strategic priorities, which include the commitment to being a responsible business.

The key activities of the Company's directors during the year included:

- Approval of the financial statements for the year ended 31 December 2022.
- Preparation of the Company's five-year strategic plan and annual budget for approval by the Group Board.
- Preparation of monthly reports on performance for the Group Board, including health and safety, risks and opportunities, and stakeholder engagement.

Further information, including the Group's Section 172 statement, can be found in the Group's 2022 report and accounts at morgansindall.com

Engagement with key stakeholders

Shareholders

The Company's ultimate shareholder is Morgan Sindall Group plc. It creates value for the Group by generating strong and sustainable results that translate into dividends. The directors discuss Company performance with the Group's executive directors in monthly management meetings and provide executive summaries for the Group Board. In addition, they routinely engage with the Group Board on topics of strategy, governance and performance. Company strategic plans are reviewed by the Group

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Board and include information on the impact of its activities on each stakeholder group and the environment.

The Company has issued to its senior management team a schedule of authorised approvers and signatories, summarising the delegated authorities within the Company. It covers the requirements contained within 'Delegation and Limits of Authority Procedures' ('DELAPs') issued by the Group.

Employee engagement

The Company's employees are at the forefront of the business. We are proud of our people and their passion, commitment and talent, which brings the expertise needed to support and make a difference for our clients.

Our priority is to provide our employees with a fair, respectful and safe working environment. This includes looking out for their health and wellbeing, both physical and mental; investing in their personal development and career progression; offering support for flexible working; and creating an open and honest culture that promotes diversity and inclusion. Our employee policies are designed to support these goals and take account of external legislation, our Code of Conduct and core values so that we can continue to recruit, develop and retain the talent needed to deliver our strategy.

We believe it is essential to engage with our employees to understand their views and priorities and how they feel about the business.

We engage directly with our employees through a variety of communication methods and channels, keeping them updated with our business goals, market conditions, operational performance, health and wellbeing support, career advancement and personal development opportunities, as well as running a range of social and engagement activities to build culture, connection and teamwork. All new starters follow a formal induction programme, including attending an in-person induction day to introduce them to the business and how it operates. This includes introducing them to the Company's core values and total commitments and how these play a key role in our culture and operations.

We hold regular in-person briefing sessions with employees across our offices, giving employees the opportunity to hear an update from directors how the Company is performing and ask any questions they may have. We also hold an all-staff conference on an annual basis, providing an overview of the Company, its progress and strategy and enabling employees to hear key messages from directors and other senior managers. These events also give employees chance to share ideas and experiences with the directors and colleagues from different departments and regions.

Regular employee forums are also held, with representatives from each office attending to ask questions on behalf of employees. In addition, we conduct an annual staff survey, plus ad-hoc topical surveys to gather feedback from across the Company. Following both the forums and surveys, the directors analyse the feedback, respond to questions and share these with employees, together with any actions that will be undertaken as a result.

Employees are encouraged to challenge the status quo and think differently so they, and us as a business, can keep improving. There are a number of working groups, made up of volunteers from our employees and sponsored by a director, to look at key topics and ways of improving our business.

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Employees are encouraged to continue their learning and professional development throughout their careers. We hold personal development conversations with them throughout their career with us to help them gain the skills they need to support their ambitions and drive the business forward. Alongside access to more traditional learning routes, we have a dedicated LinkedIn Learning platform which makes training accessible to employees at a time that suits them. Over the course of the year all employees also undertook a series of diversity and inclusion training sessions. The average training days per employee for 2022 was 4.2.

Employees are also given the opportunity to purchase Morgan Sindall Group plc shares in the future at a discount through the Sharesave scheme.

Details on how the Group Board engages with employees across the Group and how it reviews the Company's employee engagement activities can be found in the Group's 2022 annual report and accounts.

Diversity and inclusion

The Company is committed to creating a working environment that is fully inclusive, promotes diversity and allows people to bring their true selves to work. The diversity of thought, perspectives and experiences this creates form a workplace that drives innovation and provides competitive advantage. Therefore, we ensure all our employment practices promote a diverse and inclusive environment.

We have set up an employee working group (Belonging) consisting of volunteers from across the business and are developing action plans to improve diversity and inclusion. This includes looking at our recruitment and retention processes, promoting careers in the industry, and supporting diversity and inclusion in our supply chain.

In 2022, the Company became members of Inclusive Employers and launched a diversity and inclusion training programme, with a series of mandatory sessions on key topics. A programme of awareness events celebrations was run throughout the year, including Pride Month, Black History Month, International Women in Engineering Day, Ramadan, and more. Running alongside these more targeted events, was a podcast series (Wavelength), where employees shared their personal experiences and stories to help raise awareness and educate colleagues on invisible diversities. Employees are also encouraged to share information and/or personal stories on the Company's Yammer platform.

The Belonging group received recognition at The Herald & Genanalytics Diversity Awards in October 2022. The group was nominated for two awards: the Diversity Star Performer (for companies of over 250 employees), for the Company's commitment and leadership in harnessing the benefits of a diverse workforce, and the Diversity Campaign of the Year award for their Wavelength podcast series.

The Company also launched its Grassroots Connections programme, which encourages outreach activities to offer advice, insight and opportunities to those in education settings, helping raise awareness of engineering as a career to those who may not have considered it. The programme provides employees with the resources and information to support these activities. It has also set up a number of formal partnerships with local schools and a STEM Ambassadorship programme. As part of this a work experience programme was set up, offering students the chance to gain real-life industry skills and knowledge.

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Disabled employees

The Company is fully aligned with the Group policy to give full and fair consideration to job applications made by disabled people; commit to making reasonable adjustments to their role and responsibilities; and offer the training and support they need to give them the same opportunities for progression as our other employees.

Engagement with suppliers, clients and partners and local communities

We believe the best approach to developing and nurturing long-term relationships is to base them on trust, maintaining regular dialogue, listening attentively, being open and transparent, and working collaboratively.

We engage with and monitor our subcontractors' performance against set criteria and give constructive feedback. The Group's whistle blowing service is available to our subcontractors to raise any concerns they have about behaviours or decisions that do not uphold the standards set by our Code of Conduct. We follow the Prompt Payment Code and, in the six months to 31 December 2022, paid 100% of invoices within 60 days and 97% within the agreed payment terms. We continue to keep our payment performance under review and to publish our payment practices data every six months in accordance with UK law.

Long-term relationships with our clients are key to the Company's organic growth strategy. We work with clients from the public, commercial and regulated sectors. We engage with each client and partner at a local level and tailor our services as needed. Customer experience is key to our success and on completion of a project we ask for clients' feedback on project completion via our Perfect Delivery questionnaire and interview process. The results of these are shared with the project teams and analysed by the directors to drive further improvements.

Throughout all our projects, we consider the needs of local communities and the end users who will occupy or use the spaces and infrastructure we design. Our project teams liaise and with local residents and communities before and during our projects, and where appropriate we engage members of the local community in consultations on a project's development.

We also engage with our local communities through charitable causes, supporting local charities through fundraising activities from each of our offices.

In addition, we believe it is important to encourage young people to consider careers in engineering and design from an early age, particularly those groups such as women and people from BAME backgrounds who are underrepresented in our profession. Through our Grassroots Connections programme, launched in 2022, we provide resources and information for our employees to engage in outreach activities in education settings. We take part in a number of events to raise awareness of the profession, as well as the various different routes available into the industry. We also have a number of employees who are STEM Ambassadors and work with STEM Learning to promote STEM careers to young people.

Our work experience programme gives young people the opportunity to gain first-hand experience of the industry, as well as valuable skills and knowledge that will help them on their career path. Over the course of the year, we established formal links with local schools and have collaborated with clients to bring work experience programmes based on real-world projects as part of our outreach programme.

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The Company also sponsored the WorldSkills UK Digital Construction competition, working with the WorldSkills team throughout the year to promote the event, which aims to find the best in the country in each skilled profession. The Company has been actively involved since the conception of the Digital Construction competition, in the creation of the competition itself, judging and as competitors. In 2022, one of the Company's employees, a previous National Champion, was a judge.

We use our external communication channels, including the press, social media and our website, to promote the work we do in the local community and, where appropriate, with our clients.

The Company reports to the Group Board of directors on a monthly basis on details of our relationships with our supply chain, clients and local communities, including feedback and satisfaction metrics and details of community initiatives. Further information on stakeholder engagement and the Group's delivery on its Total Commitments can be found in the Group's 2022 annual report and accounts.

Approved by and on behalf of the Board



C Archer
Director

11 April 2023

BAKER HICKS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and the audited financial statements for the year ended 31 December 2022. The annual report comprises the strategic report and directors' report, which together provide the information required by the Companies Act 2006. The financial statements have been prepared under United Kingdom Accounting Standards.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities are described in the strategic report on pages 2 to 7.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence during the going concern period, which the directors have defined as the date of approval of the 31 December 2022 financial statements through to 11 April 2024.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2022 the Group had net cash balances of £355m. The Group also had committed loan facilities of £15m maturing in March 2024 and £165m maturing in October 2025, which were entirely undrawn as at 31 December 2022. The directors, having assessed the responses of the directors of the Group to their enquiries and having received confirmation of its continued support, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

The Company's future workload is healthy with a secured order book of £30.7m of which £27.1m relates to the 12 months ending 31 December 2023. The Company has a strong financial position as the year end with net current assets of £10.6m (2021: £4.9m), including cash of £4.1m (2021: £3.5m) as at 31 December 2022.

Based on the above, the directors have a reasonable expectation that the Company together with Group's support have adequate resources to continue in operational existence during the going concern period which is through to 11 April 2024. Thus, they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the principal accounting policies in the financial statements.

Directors

The directors who served during the year and to the date of this report are shown on page 1. None of the directors had any interest in the shares of the Company during the year ended 31 December 2022.

Directors' indemnities

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Furthermore, the Group maintains liability insurance for its directors and officers and those of its directors and officers of its associated companies. The Group has also indemnified certain directors of its Group companies to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties.

The Company has not made qualifying third-party indemnity provisions for the benefit of its directors during the year.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Dividends

The directors do not recommend the payment of a final dividend (2021: £nil).

Post balance sheet events

There were no post balance sheet events that affected the financial statements of the Company.

Political contributions

The Company made no political contributions during the year (2021: none).

Employment policies

The Company insists that a policy of equal opportunity employment is demonstrably evident at all times. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Engagement with employees and other stakeholders

Details on engagement with employees and other stakeholders can be found in the strategic report on pages 2 to 7.

Environmental performance

The Group continues to maintain its sector leadership status in addressing climate change. For the third year in a row, the Group achieved a grade 'A' score for its leadership on climate change from CDP and since 2010, all the Group's (including the Company's) emissions have been independently verified.

In early 2021, the Group set its goal of achieving 'net zero' in its Scope 1¹, Scope 2² and operational Scope 3³ emissions by 2030. The Group's route to operational net zero is through reducing such emissions by 60% (based on its 2019 emissions) and offsetting its residual emissions by investing in UK-based projects. In 2022, the Group achieved a reduction of 4% in its Scope 1¹, Scope 2² and operational Scope 3³ emissions compared to 2021, resulting in a total 40% reduction compared to its 2019 baseline. Based on its current trajectory, the Group is on track to achieve its targeted reductions by 2030.

Considerable progress has been made by the Group with its responsible offsetting projects. These include its investment in a 25-year project to create nine new woodlands on the Blenheim Estate in Oxfordshire. As well as providing measurable, demonstrable gains in terms of absorbing and storing carbon, increasing biodiversity and improving soil, air and water quality, the woodlands will provide wellbeing benefits for people visiting the area.

In addition, since the year end, the Group announced its participation in two other responsible offsetting projects: a peatland restoration programme to restore over 300 hectares of blanket bog in the Northern Pennines AONB and the Yorkshire Dales National Park; and the acquisition of 54 hectares of land to support the RSPB in unlocking and restoring additional land next to their existing Lakenheath

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Fen reserve in Norfolk. In addition to preventing further carbon loss from the degraded soils and storing future carbon, both projects will enable endangered species to recover, support a range of wildlife and provide people with vibrant places to visit.

The Group has set science-based targets for reducing carbon emissions and was one of the first construction companies globally to have its science-based emission targets officially accredited back in 2018. In 2022, the Group realigned its targets to a 1.5°C scenario and submitted them to the Science Based Targets Initiative for revalidation. As part of this, the Group has now extended its net zero target to include the full total of its Scope 3⁴ emissions (i.e. not just operational Scope 3) by 2045. This target is consistent with progress made to date and with the 2030 net zero target, which includes only operational Scope 3³ emissions.

Where possible, the Group integrates biodiversity into design decisions and measures the biodiversity net gain⁵ associated with projects. The Group also supports a circular economy by reducing waste, recycling, and reusing waste where appropriate. In 2022, 96% of the Group's waste was diverted from landfill and total waste reduced by 57%.

Further details of the Group's environmental performance and a copy of the Task Force on Climate-related Financial Disclosure (TCFD) report please see the Morgan Sindall Group plc 2022 Annual Report www.morgansindall.com

¹ Scope 1 emissions are direct emissions from owned or controlled sources.

² Scope 2 emissions are Indirect emissions generated from purchased energy.

³ Operational Scope 3 emissions are all indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitu carbon reduce scheme.

⁴ Scope 3 emissions are all emissions arising from the whole value chain from supply chain and end-users of buildings. Total emissions include carbon embodied in the materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling; carbon emitted during construction via energy use and waste; and estimated carbon emitted from operating the buildings for 60 years following handover to the client.

⁵ Biodiversity net gain is an approach to development, and/or land management, that aims to leave the natural environment in a measurably better state than it was beforehand.

Independent auditor and disclosure of information to the independent auditor

Each of the persons 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
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' responsibilities statement

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

The directors confirm that they have complied with the above requirements in preparing the financial statements. 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 Practice (United Kingdom Accounting Standards and applicable

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

law) including FRS 101. 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved for and on behalf of the Board



C Archer
Director
11 April 2023

BAKER HICKS LIMITED

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAKER HICKS LIMITED

Opinion

We have audited the financial statements of Baker Hicks Limited ('the company') for the year ended 31 December 2022 which comprise the Statement of comprehensive income, the Balance Sheet, and the Statement of changes in equity, and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice) ("FRS 101").

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period from when the financial statements are authorised for issue through until 11 April 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

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INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and compliance with the relevant direct tax regulation in the United Kingdom.
- We understood how Baker Hicks Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and those charged with governance. We corroborated our enquiries through our review of board minutes and papers provided to the Board and the ultimate parent group's Audit Committee, noting the strong emphasis of transparency and honesty in the Company's culture and the levels of oversight the Board and ultimate parent group management have over the Company despite the decentralised operating model of the ultimate parent group.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent and detect fraud; and how senior management monitor those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures are set out below and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted International Accounting Standards, the Companies Act 2006, The Companies (Miscellaneous Reporting) Regulations 2018) and the relevant tax

BAKER HICKS LIMITED

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

compliance regulations in the UK.

- We understood how Baker Hicks Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Board and the ultimate parent group's Audit Committee, noting the strong emphasis of transparency and honesty in the Company's culture and the levels of oversight the Board and ultimate parent group management have over the Company despite the decentralised operating model of the ultimate parent group.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitor those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures are set out below and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.
 - We performed risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) and obtained an understanding of the contract terms, key operational or commercial issues, judgements impacting the contract position and contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select includes the size of the contract, loss making contracts or contracts with a significant deterioration in margin, and stage of completion;
 - Performed walkthroughs of the significant classes of revenue transactions recognised over time and assessed the design effectiveness of key controls;
 - Performed a detailed review of the signed contract agreements to understand the commercial terms and review of any legal correspondence or expert advice that has been obtained to support any contract positions recorded;
 - Assessed the appropriateness of supporting evidence and the requirement of IFRS 15 and the Company's accounting policy;
 - Considered the appropriateness of the accruals at the year end and assessed whether these have been incurred and not materially overstated/understated;
 - Challenged the level of unagreed income or contract assets and adequacy of the evidence;
 - Reviewed contract asset balances and challenged management on both the recognition criteria together with the recovery of balances at the year end which have not been provided for including the consideration of counterparty risk;
 - Inspected correspondence with counterparties in respect of contract claims for and against the Company;
 - Assessed the reasonableness of calculations of estimated costs to complete, which included understanding the risks/outstanding works on the contract, the impact of any delays or other delivery issues and the related provisions for cost escalations that have been recognised;
 - Assessed the correlation between revenue, receivables and cash balances using data analytical tools or through other substantive test of detail procedures; and

BAKER HICKS LIMITED

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

- Reviewed material manual journals recorded to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of management, and focussed testing as defined above. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with the requirements of the relevant accounting standards and applicable UK legislation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

Adrian Roberts (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham, United Kingdom
11 April 2023

BAKER HICKS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Notes	£000	£000
Revenue	1	62,028	52,319
Cost of sales		(39,655)	(35,020)
Gross profit		22,373	17,299
Other administrative expenses		(14,818)	(12,148)
Operating profit	2	7,555	5,151
Interest receivable	5	240	172
Interest payable	5	(159)	(183)
Profit before tax		7,636	5,140
Tax	6	(1,251)	(763)
Profit for the financial year attributable to owners of the Company	14	6,385	4,377
Items that may be reclassified subsequently to profit or loss:			
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the Company		6,385	4,377

Continuing operations

The results for the current and previous financial years all derive from continuing operations.

BAKER HICKS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	7	7,104	7,561
Investments in subsidiaries	8	1,684	1,684
Deferred tax asset	12	837	428
		9,625	9,673
Current assets			
Contract assets	10	4,728	2,429
Trade and other receivables	9	19,469	14,705
Cash and bank balances		4,061	3,514
		28,258	20,648
Total assets		37,883	30,321
Current liabilities			
Contract liabilities	10	(6,272)	(4,934)
Trade and other payables	11	(9,556)	(9,664)
Current tax liabilities		(978)	(321)
Lease liabilities	17	(885)	(848)
		(17,691)	(15,767)
Net current assets		10,567	4,881
Non-current liabilities			
Lease liabilities	17	(4,044)	(4,791)
		(4,044)	(4,791)
Total liabilities		(21,735)	(20,558)
Net assets		16,148	9,763
Capital and reserves			
Share capital	13	3,000	3,000
Retained earnings	14	13,148	6,763
Total shareholder's funds		16,148	9,763

The financial statements of Baker Hicks Limited (company number 06256571) were approved by the Board and authorised for issue on 11 April 2023. They were signed on its behalf by:



..... C Archer, Director

BAKER HICKS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2022

	Share capital (Note 13) £000	Retained earnings (Note 14) £000	Total £000
At 1 January 2021	3,000	2,386	5,386
Total comprehensive income	-	4,377	4,377
At 1 January 2022	3,000	6,763	9,763
Total comprehensive income	-	6,385	6,385
At 31 December 2022	3,000	13,148	16,148

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

General information

Baker Hicks Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the UK under the Companies Act 2006 and registered in England and Wales. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 7. The address of the registered office is given on page 1.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, presentation of standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts of Morgan Sindall Group plc, which are available to the public at www.morgansindall.com.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

These financial statements are presented in pounds sterling which is the Company's presentational and functional currency. All financial information, unless otherwise stated, has been rounded to the nearest £1,000.

The directors consider that the ultimate parent undertaking and ultimate controlling party of this Company is Morgan Sindall Group plc, which is registered in England and Wales. It is the only group into which the results of the Company are consolidated. Copies of the consolidated financial statements of Morgan Sindall Group plc are publicly available from morgansindall.com or from its registered office Kent House, 14-17 Market Place, London W1W 8AJ.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the preparation of consolidated financial statements because it is included in the Group accounts of Morgan Sindall Group plc. These financial statements are separate financial statements and present information about the Company as an individual undertaking and not of the Group.

Adoption of new and revised standards

New and revised accounting standards adopted by the Company

During the year, the Company has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Amendments to IFRS 3 'Reference to the Conceptual Framework'
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use'
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract'
- Annual Improvements to IFRS Accounting Standards 2018-2020 cycle

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early

At the date of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 'Insurance Contracts'
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current'
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements – Disclosure of Accounting Policies'
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates'
- Amendments to IAS 12 'Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
- Amendments to IFRS 16 'Lease Liability in a Sale and Leaseback'

The company is currently assessing the impact of the standards but do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities are described in the strategic report on pages 2 to 7.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence during the going concern period, which the directors have defined as the date of approval of the 31 December 2022 financial statements through to 11 April 2024.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2022 the Group had net cash balances of £355m. The Group also had committed loan facilities of £15m maturing in March 2024 and £165m maturing in October 2025, which were entirely undrawn as at 31 December 2022. The directors, having assessed the responses of the directors of the Group to their enquiries and having received confirmation of its continued support, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

The Company's future workload is healthy with a secured order book of £30.7m of which £27.1m relates to the 12 months ending 31 December 2023. The Company has a strong financial position as the year end with net current assets of £10.6m (2021: £4.9m), including cash of £4.1m (2021: £3.5m) as at 31 December 2022.

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

Based on the above, the directors have a reasonable expectation that the Company together with Group's support have adequate resources to continue in operational existence to the end of the going concern period which is 11 April 2024. Thus they continue to adopt the going concern basis in preparing the financial statements.

Property, plant and equipment

Freehold and leasehold property, plant, machinery and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided in equal annual instalments at rates calculated to write off the cost of the assets over their estimated useful lives as follows:

Plant, equipment, fixtures and fittings	between three and 10 years
Right of use - Leasehold buildings	the period of the lease

Investments in subsidiaries

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

Revenue

Revenue is defined as the value of goods and services rendered excluding discounts and VAT and is recognised as follows:

(a) Service contracts

Service contracts include design, maintenance and management services. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defect's liability period.

Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Contract balances

Contract assets

Contract assets primarily relate to the Company's right to consideration for work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts, certificates are issued by the customer on a monthly basis.

Contract liabilities

Contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. Contract liabilities are recognised as revenue when performance obligation to the customer has been satisfied.

(c) Contract costs

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

Costs to obtain a contract are expensed unless they are incremental, i.e., they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

Leases

Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease other than those that are less than one year in duration or of a low value.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Company's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications.

The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Company and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset. The right-of-use assets are presented within the property, plant and equipment line in the balance sheet and depreciated in accordance with the Company's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Pensions

The Company contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements, which are of a defined contribution type. For all schemes the amount charged to the statement of comprehensive income is equal to the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Income tax

The income tax expense represents the current and deferred tax charges. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the Company's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

Taxable profit differs from that reported in the statement of comprehensive income because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profits, or differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where this is a legally enforceable right to offset current tax assets and liabilities.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Company's management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying the Group's accounting policies

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

The Company assesses its costs and anticipated profits in excess of billings based on time charged to each project and estimated future costs and total revenues. Recognition of revenues and contract assets involves estimates of costs required to complete the project. On a monthly basis, the Company reviews the costs incurred to date and the estimated costs to complete for each project to determine whether the amount recognised as contract assets is an accurate estimate of the amount that the

BAKER HICKS LIMITED

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2022

Company has earned on its projects. Where the review determines that the value of costs and anticipated profits in excess of billings exceed the amount that has been earned, adjustments are made to the contract assets. Changes in the estimate of costs required to complete projects could lead to reversals of revenues.

The Company did not have any other critical judgements or key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) Key sources of estimation uncertainty

The Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Analysis of revenue and profit before taxation

All revenue and profit before taxation relates to the Company's principal activity carried out in the UK.

2. Operating profit

	2022	2021
	£000	£000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets:		
- owned assets	858	737
- Right of use assets	773	762
Expense relating to short-term leases	51	91
Fees payable to the Company's auditor for the audit of the Company's annual accounts	36	25

Non-audit fees payable by the Company during the year were £nil (2021: £nil) relating to other services.

3. Staff costs

	2022	2021
	£000	£000
Wages and salaries	23,033	20,080
Social security costs	2,900	2,373
Pension costs	1,054	917
	26,987	23,370

	No.	No.
The average monthly number of employees (including executive directors) during the year was:	438	406

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

4. Directors' remuneration

	2022	2021
	£000	£000
Directors' remuneration		
Emoluments	518	769
Company contributions to money purchase pension scheme	17	15
Remuneration of the highest paid director		
Emoluments	340	522
Company contributions to money purchase pension scheme	4	4
	No.	No.
The number of directors who:		
- are members of money purchase pension schemes	2	2

Total emoluments exclude amounts in respect of share options (granted and/or exercised), pension contributions, benefits under pension schemes and benefits under long term incentive plans.

Two current directors of the Company received no emoluments (2021: two) in their capacity as directors of this Company. These individuals are remunerated by another company in the Group.

5. Net interest receivable / (payable)

	2022	2021
	£000	£000
Bank interest receivable	66	2
Transfer pricing income	174	170
Interest receivable	240	172
Other interest payable	-	(8)
Lease liabilities (Note 17)	(159)	(175)
Interest payable	(159)	(183)

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. Tax

	2022	2021
	£000	£000
UK corporation tax charge on profit for the year	1,463	959
Adjustment in respect of previous years	197	(126)
Total current tax	1,660	833
Origination and reversal of timing differences	(197)	(62)
Adjustment in respect of previous years	(212)	(8)
Total deferred tax (note 12)	(409)	(70)
Total tax expense	1,251	763

Corporation tax is calculated at 19.0% (2021: 19.0%) of the estimable taxable profit for the year. The actual tax charge for the current and preceding year differs from the standard rate for the reasons set out in the following reconciliation:

	2022	2021
	£000	£000
Profit before tax	7,636	5,140
Tax on profit at corporation tax rate	1,451	977
<i>Factors affecting the charge for the year:</i>		
Non-taxable income and expenses	(145)	1
Adjustments to tax charge in respect of previous years	(15)	(135)
Expected forthcoming changes in tax rates upon deferred tax balance	(18)	(101)
Other tax differences	(22)	21
Total tax expense	1,251	763

During 2021 it was announced that the UK statutory tax rate will increase from 19% to 25% from 1 April 2023. Consequently, the applicable tax rate for the Group (taking into account its December year end) is expected to be 23.5% in 2023, and 25% in 2024 (and beyond). Deferred taxes at the balance sheet date are measured at the enacted rates that are expected to apply to the unwind of each asset or liability.

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

7. Property, plant and equipment

	Plant, Equipment, fixtures and fittings £000	Right of use assets - Leasehold Buildings £000	Total £000
Cost			
As at 1 January 2022	4,471	7,203	11,674
Additions	1,002	181	1,183
Disposals	(164)	(160)	(324)
As at 31 December 2022	5,309	7,224	12,533
Depreciation			
As at 1 January 2022	(1,886)	(2,227)	(4,113)
Charge for the year	(858)	(773)	(1,631)
Disposals	155	160	315
As at 31 December 2022	(2,589)	(2,840)	(5,429)
Net Book Value			
As at 31 December 2022	2,720	4,384	7,104
As at 31 December 2021	2,585	4,976	7,561

8. Investments in subsidiaries

	£000
Cost and net book value	
At 1 January 2022	1,684
Disposals	(-)
At 31 December 2022	1,684

On 21 September 2022, the Company sold its shareholding in Morgan Sindall Engineering Solutions Limited to Morgan Sindall Construction & Infrastructure Ltd, a fellow Group company, for consideration of £1.

The details of the Company's subsidiaries are shown below. The country of incorporation and principal place of business is the UK and the address of the registered office of each entity is the same as the registered office of this Company unless otherwise indicated.

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Name of company	Registered office	Principal activity	Proportion of ordinary shares held
BakerHicks Europe Holdings Ltd (formerly “Morgan Sindall Professional Services (Switzerland) Ltd”)	Kent House, 14-17 Market Place, London, W1W 8AJ	Holding company	100%
BakerHicks AG	Badenstrasse 3, CH-4057 Basel, Switzerland	Design & construction management services	100% ¹
BakerHicks GmbH	Albert-Nestler-Strasse 26, 76131 Karlsruhe, Germany	Design & construction management services	100% ¹
BakerHicks GmbH	Am Euro Platz 3, 1120 Wien, Austria	Design & construction management services	100% ¹
BakerHicks ApS	Advokatpartnerse lskab, Langelinie Alle 35, 2100 Kobenhavn O, 2880 Bagsvaerd, Denmark	Design & construction management services	100% ¹
BakerHicks SA	Boulevard Louis Schmidt 29 15 1040 Etterbeek, Belgium	Design & construction management services	100% ¹

¹ Indirect holdings

9. Trade and other receivables

	2022 £000	2021 £000
Amounts falling due within one year		
Trade receivables	7,048	6,332
Amounts owed by Group undertakings	8,871	6,969
Prepayments	978	972
Other receivables	2,572	432
	19,469	14,705

Amounts owed by Group undertakings are payable on demand and are not interest bearing.

BAKER HICKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. Construction contracts

The Company has recognised the following revenue-related contract assets and liabilities:

	2022 £000	2021 £000
Contract assets	4,728	2,429
Contract liabilities	(6,272)	(4,934)

The contract assets primarily relate to the Company's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts certificates are issued by the customer on a monthly basis.

The Company has taken advantage of the practical expedient in paragraph 94 of IFRS 15 to immediately expense the incremental costs of obtaining contracts where the amortisation period of the assets would have been one year or less.

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. All contract liabilities held at 31 December 2022 are expected to satisfy performance obligations in the next 12 months.

Significant changes in the contract assets and the contract liabilities during the period are as follows:

	2022 £000	Contract liabilities	2021 £000	Contract assets	Contract liabilities
As at 1 January	2,429	(4,934)	3,006		(3,780)
Revenue recognised					
- performance obligations satisfied in the current period	57,094	4,934	49,313		3,780
Cash received for performance obligations not yet satisfied		(6,272)			(4,934)
Amounts transferred to trade receivables	(54,795)		(49,890)		
As at 31 December	4,728	(6,272)	2,429		(4,934)

11. Trade and other payables

	2022 £000	2021 £000
Amounts falling due within one year		
Trade payables	736	449
Amounts owed to Group undertakings	31	47
Social security and other taxes	3,548	3,317
Other payables	3,107	3,816
Accruals	2,134	2,035
	9,556	9,664

Amounts owed by Group undertakings are payable on demand and are not interest bearing.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. Deferred tax asset

	2022	2021
	£000	£000
Balance at 1 January	428	358
Income statement credit (note 6)	409	70
Balance at 31 December	837	428

Deferred tax assets consist of the following amounts:

	2022	2021
	£000	£000
Accelerated capital allowances	539	158
Goodwill	188	208
Short term timing differences	110	62
	837	428

The goodwill balance relates to unamortised deferred tax which continues to have a tax basis whereas the goodwill on the balance sheet has been previously written off in full.

13. Share capital

	2022	2021
	£000	£000
Issued, authorised and fully paid		
3,000,001 ordinary shares of £1 each	3,000	3,000

The Company has one class of ordinary share which carries no rights to fixed income.

14. Retained earnings

	2022	2021
	£000	£000
Balance as at 1 January	6,763	2,386
Profit for the year	6,385	4,377
Balance as at 31 December	13,148	6,763

15. Pension commitments

The Company contributes to the Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements. The Morgan Sindall Retirement Benefits Plan is a defined contribution post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The pension creditor at 31 December 2022 was £206,000 (2021: £168,000).

16. Contingent liabilities

Performance bonds have been entered into in the normal course of business. Performance bond facilities and banking facilities of the Group are supported by cross guarantees given by the Company and other participating companies in the Group. It is not anticipated that any liability will accrue.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17. Lease liabilities

The company leases assets are property. The average lease term is 8 years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2022 are set out below:

	Leasehold Property	
	2022	2021
	£000	£000
Maturity analysis		
Within one year	885	848
Within two to five years	3,228	3,046
After more than five years	816	1,745
	4,929	5,639

	2022		2021	
	Leasehold Property	Total	Leasehold Property	Total
	£000	£000	£000	£000
As at 1 January	5,639	5,639	6,500	6,500
Additions	181	181	-	-
Repayments	(1,050)	(1,050)	(1,036)	(1,036)
Interest expenses	159	159	175	175
As at 31 December	4,929	4,929	5,639	5,639

18. Related party transactions

In the ordinary course of business, the Company has traded with its parent company Morgan Sindall Group plc together with its subsidiaries. Advantage has been taken of the exemption permitted by FRS 101 not to disclose transactions with entities that are wholly owned by the Group. Balances with these entities are disclosed in notes 9 and 11 of these financial statements.

19. Subsequent events

There were no subsequent events that affected the financial statements of the Company.