Full Year Results

to 31st December 2020

25th February 2021

MORGAN SINDALL GROUP

Agenda

- Financial & Operational Review | Steve Crummett
- Medium-term Targets & Outlook | John Morgan
- Reducing our Carbon Emissions | Steve Crummett

Financial & Operational Review

Steve Crummett

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Summary Income Statement

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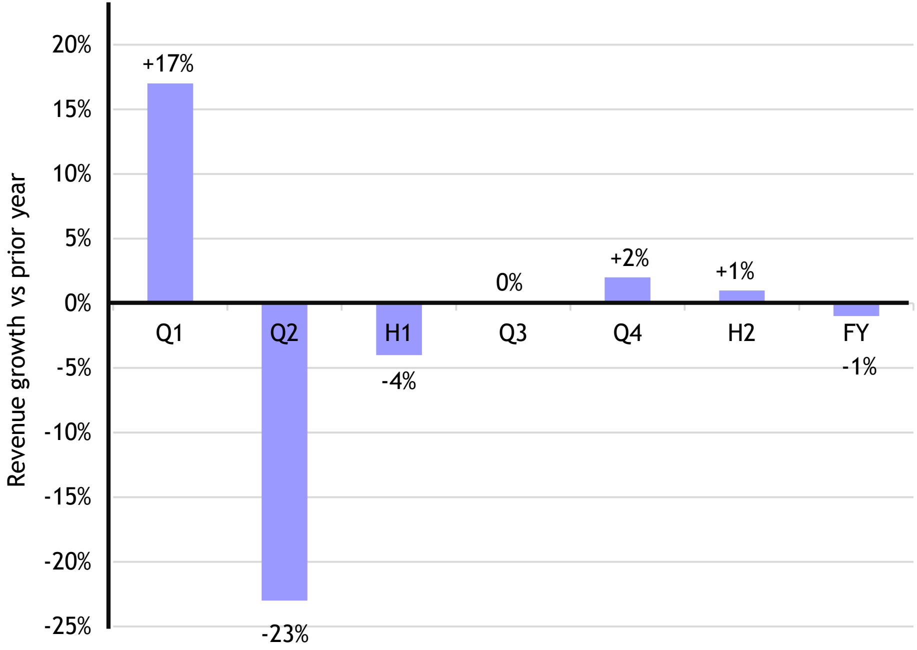
Adjusted basis* £m	FY 2020	FY 2019	% change
Revenue	3,034	3,071	-1%
Operating profit	68.5	93.1	-26%
Operating margin	2.3%	3.0%	-70bps
Net Interest	(4.6)	(2.7)	-£1.9m
Profit before Tax	63.9	90.4	-29%
Tax	(14.5)	(17.7)	+£3.2m
Profit after Tax	49.4	72.7	-32%
Earnings per Share (p)	108.6p	161.2p	-33%
Dividend per Share (p)	61.0p	21.0p	n/a

* *before intangible amortisation of £3.1m and deferred tax charge of £1.5m*
(FY 2019: intangible amortisation of £1.8m)

Revenue (by quarter)

- Revenue tracks the impact of C-19 restrictions through the year
- Strong momentum in the second half with all sites open and operating
- Minimal impact on operations of tier restrictions and lockdowns 2 & 3
- H2 operating margin of 3.0% approaching pre C-19 levels (FY 2019: 3.4%)



Main areas of impact of C-19

- Direct costs of closure and re-mobilisation
- Lower levels of operating efficiency and productivity
- Prolongation of contract periods
- Volume reduction in services provided to ‘essential’ only (Property Services)
- Slower work winning conversion
- Delayed decision making from clients and partners
- Furlough – at ‘peak’ c1,900 employees around Group on furlough
    - £9.5m received. Fully repaid in second half.
        - £7.7m through Central Costs, £1.8m as Corporation Tax
- Higher interest charge due to precautionary initial drawing on unused bank facilities
- Cancelled FY 2019 final dividend

Summary by division

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	Revenue		Operating Profit/(Loss)[1]		Operating Margin[1]	
	£m	change	£m	change	%	change
Construction & Infrastructure	1,637	+10%	35.7	+11%	2.2%	-
Fit Out	700	-17%	32.1	-13%	4.6%	+20bps
Property Services	112	-3%	1.0	-77%	0.9%	-280bps
Partnership Housing	441	-14%	16.1	-12%	3.7%	+10bps
Urban Regeneration	123	+3%	9.2	-53%	n/a	
Investments	34	n/a	(6.9)	n/a	n/a	
Elims/Central	(13)		(18.7)			
Total	**3,034**	-1%	**68.5**	-26%	**2.3%**	-70bps

[1] *before intangible amortisation of £3.1m (FY 2019: intangible amortisation of £1.8m)*

Cash flow

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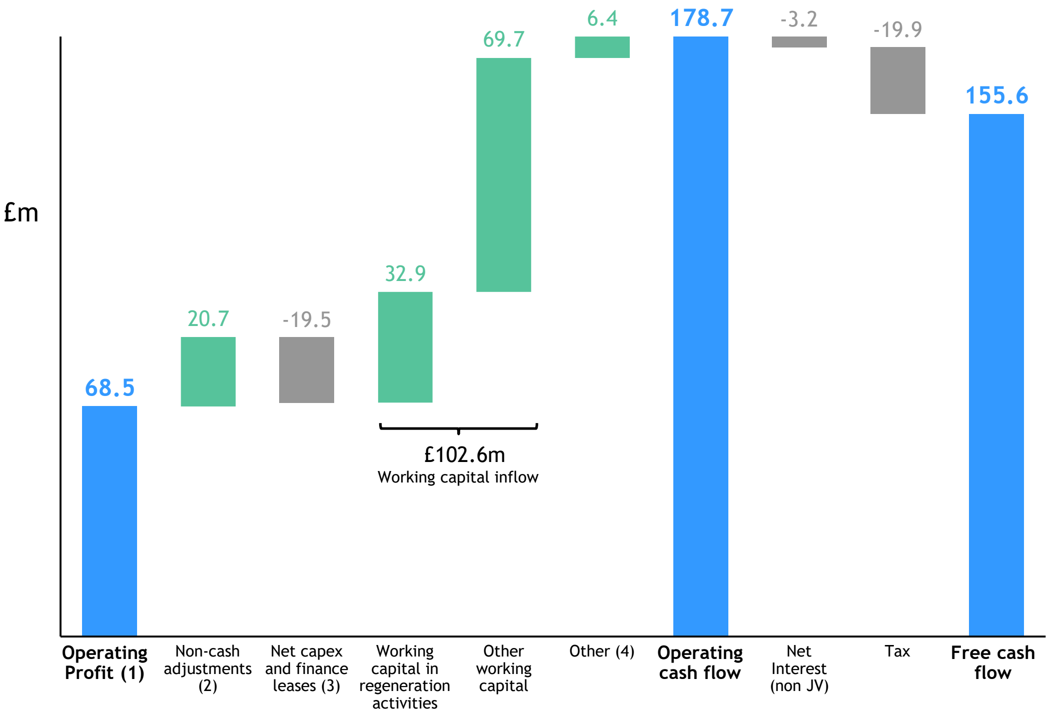
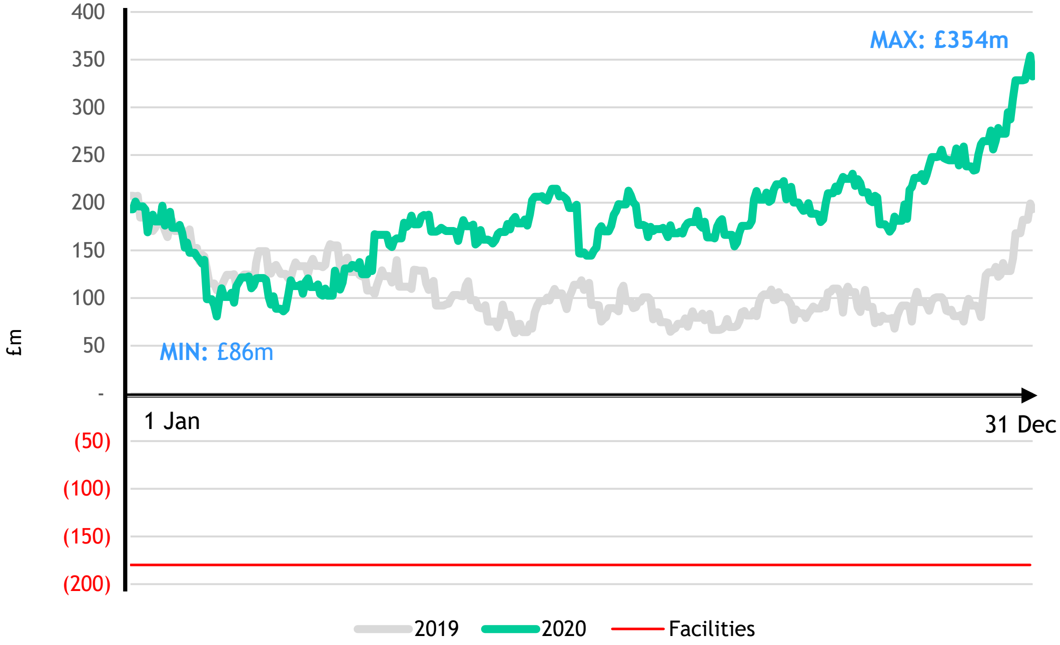


- Very strong operating cash flow
- Total working capital inflow of £102.6m
- Lower working capital in Regeneration activities due to year end completions and chosen funding solutions
  - No impact on long term strategic investment programme
- Working capital inflow driven by lower receivables

[1] Adjusted
[2] 'Non-cash adjustments' includes depreciation £22.0m, movement in shared equity loans receivable £0.5m and revaluation of investment properties £0.6m; less share of equity accounted joint venture profits £2.3m and share option credit £0.1m
[3] Includes repayment of lease liabilities £15.1m, purchase of property, plant & equipment £4.2m and purchase of intangible fixed assets £1.6m; less proceeds on disposal of property, plant & equipment £1.4m
[4] Includes provision movements £2.0m, adjustments for the impairment of investments £3.3m, shared equity redemptions £2.4m, proceeds on disposal of investment properties £1.8m, interest from joint ventures £0.6m; less gain on disposal of interests in joint ventures £2.7m and gain on disposal of property, plant & equipment £1.0m

Daily net cash balance



Average daily net cash (2019: £109m) **£181m**

- Average includes the benefit of deferrals of VAT/PAYE etc impacting average by c£20m. All now fully up to date
- Year end net cash £333m (FY 2019: £193m)
- Renewed bank facilities
  - New £150m RCF out to late 2023
  - Total facilities of £180m
- Average daily net cash to be well in excess of £100m in 2021

Payment practices

6m to 31st December 2020	Average time to pay invoices	Invoices not paid within agreed terms	Invoices paid within 60 days
Construction & Infrastructure	27 days	9%	98%
	5 days	3%	1%
Fit Out	21 days	7%	97%
	1 day	2%	-
Property Services	36 days	12%	94%
	7 days	1%	3%
Partnership Housing	35 days	17%	95%
	1 day	3%	2%

- Continued improvement in average time to pay invoices in Construction & Infrastructure
  - reduced to 27 days in last 12 months. 98% of invoices paid within 60 days
- Fit Out – invoices paid on average in 21 days
  - been around this level for a number of years
- Average time to pay in Property Services impacted by C-19 processing issues and expected to reverse
- Partnership Housing – 95% of invoices now paid within 60 days

Note: movements are shown compared to the prior year comparative reporting period of the 6 months to 31 December 2020. Green indicates improvement, red indicates deterioration

Balance Sheet

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£m	FY 2020	FY 2019
Intangibles	222.1	223.6
PP&E	65.8	79.5
Investments (including JVs)	94.1	90.7
Shared equity loan receivables	5.5	8.4
Net working capital	(195.6)	(91.9)
Current and deferred tax	(13.5)	(17.7)
Net cash	332.8	192.7
Lease liabilities	(51.0)	(59.7)
Other[1]	(30.2)	(28.8)
Net assets - reported	430.0	396.8

[1] 'Other' includes provisions £30.9m, retirement benefit obligation £0.2m, accrued interest £0.4m, less capitalised fees £1.3m

Secured Workload

£8.3bn Group Secured Workload +9% on FY 2019

£3.9bn Construction +7% on FY 2019

- includes Construction & Infrastructure, Fit Out, Property Services
- no compromise on quality of work secured consistent with the strategy
- strict definition where projects only included when signed contract or letter of intent in place

£4.4bn Regeneration +11% on FY 2019

- includes Partnership Housing, Urban Regeneration, Investments
- long term in nature with >80% for 2022 onwards
- only includes secured schemes

Divisional Performances

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Construction & Infrastructure

£m	FY 2020	Change
Revenue	1,637	+10%
Operating profit	35.7	+11%
Operating margin (%)	2.2%	-
Secured order book	2,537	+12%

- Very strong year for Infrastructure
  - Profit up 81% to £27.5m
- Construction impacted by C-19
  - Profit down 52% to £8.2m
- All sites fully operational through the second half
- High quality order book
  - Focus on risk management and operational delivery

Construction	Infrastructure
+8% Revenue up to £670m 41% of divisional total	+12% Revenue up to £967m 59% of divisional total
1.2% Operating margin down from 2.8% in FY 2019	2.8% Operating margin up from 1.8% in FY 2019
Level Order Book at £512m (+£730m in PB) c100% 2-stage/frameworks	+15% Order Book at £2,025m > 90% through frameworks

Fit Out

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£m	FY 2020	Change
Revenue	700	-17%
Operating profit	32.1	-13%
Operating margin (%)	4.6%	+20bps
Secured order book	410	-15%

+20bps increase
margin up to 4.6%

FY 2019 margin: 4.4%

25% of revenue
Public sector/local authority

FY 2019: 6%

£387m
Secured orders for 2021

down 8% on 2020

c£450m
Bids pending decision

c£350m tenders for Q1 2021

- Margin and profit demonstrate the high quality of business
- Focus on operational delivery and exceptional customer experience drives market leading performance
- Significant value of bids pending a decision and identifiable tender opportunities in Q1
- Opportunity to leverage off office reconfigurations to accommodate post-pandemic requirements

Property Services

£m	FY 2020	Change
Revenue	112	-3%
Operating profit*	1.0	-77%
Operating margin (%)	0.9%	-280bps
Secured order book	970	+7%

£171m
New contracts secured

Hammersmith & Fulham
Home Group

£1.6bn
Bids awaiting decision or identified for bid in 2021

>55% of order book
for 2025 & beyond

Long-term visibility

£1.6m
further investment in systems development to enhance client offering

- Significant operational disruption during the first lockdown in March onwards
- Lower volumes insufficient to cover overheads. Operating structure geared for higher expected activity
- Normalised run-rate in Q4. Lower planned maintenance activity expected in the short term

* *before intangible amortisation of £1.2m (FY 2019: £1.2m)*

Partnership Housing

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£m	FY 2020	Change
Revenue	441	-14%
Operating profit	16.1	-12%
Operating margin (%)	3.7%	+10bps
Secured order book	1,267	+16%
Average capital employed	150.9	-0.7
ROCE – last 12 months	11%	

+3%
Mixed-tenure revenue
to £278m (63% of total)

-33%
Contracting revenue
to £163m (37% of total)

1,216 mixed-tenure units completed
FY 2019: 1,144 units

£229k
ASP in mixed-tenure
FY 2019: £238k per unit

4.7% H2 margin
H2 2019: 4.3% margin

- Growth in mixed-tenure. Contracting activity significantly lower
- High quality order book up 16%; mixed-tenure up 11%, contracting up 26%
- Capital employed reflects funding options to de-risk schemes
    - no impact of C-19 on the long-term strategic investment programme
- Average capital employed for 2021 expected to increase up to c£180m

Urban Regeneration

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£m	FY 2020	Change
Revenue	123	+3%
Operating profit	9.2	-53%
Secured order book	2,434	+7%
Average capital employed	109.7	+7.9
ROCE – last 12 months	8%	
ROCE – avge last 3 years	14%	

c£120m
average capital forecast for 2021

£950m GDV
Projects on site

14 projects, across 10 developments

+7% Order book
up to £2.4bn

72% for 2023 & beyond

Diverse portfolio
52% residential, 31% commercial 17% industrial/leisure/retail
45% NW, 41% SE & London, 12% York & NE, 2% rest

- Development progress generally “moved to the right”
  - on-site construction progress slower
- Decision making amongst partners remains cautious
- Long term schemes. No overall impact of C-19 on pipeline of schemes and profit/returns potential

Investments

£m	FY 2020	Change
Operating loss*	(6.9)	n/a

4
JV partnerships with local authorities

Later Living
Development of extra-care facilities

- Operational responsibility for activities transferred to Partnership Housing/Urban Regeneration
  - Addresses increasing overlap between the market proposition of Investments and Partnership Housing/Urban Regeneration
  - Duplication of resources and capabilities
- c£1m of redundancy costs & other reorganisation costs incurred
- No longer a separate operating unit/reporting segment from 1 January 2021

* *before intangible amortisation of £1.9m (FY 2019: £0.6m)*

Revised segmental reporting

- New structure effective from 1 January 2021
- Restatement of 2020 comparatives to reflect new structure

Investments – 2020 loss of £6.9m; capital employed £21.9m

Partnership Housing

- Later Living development
- JV with Herts CC
- Sundry other

2020 loss £0.1m
Capital employed £8.4m

Urban Regeneration

- JV with Slough BC
- JV with Bournemouth Council
- JV with Brentwood

2020 loss £0.4m
Capital employed £15.7m

Central costs

- Redundancy costs
- Bidding costs
- Property costs
- General overhead

2020 loss £6.4m
Capital employed (£2.2m)

Financial summary

- Resilient performance against C-19 backdrop. No material impact of restrictions in H2
- All businesses operational. Positive momentum coming into 2021
- Strengthened balance sheet. Substantial net cash balance throughout the year
- All government monies repaid and up to date
- Average daily net cash for 2021 expected to be well in excess of £100m
- Final dividend of 40p per share. Total dividend of 61p per share

Medium-term Targets & Outlook

John Morgan

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Group Strategy

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- Our chosen markets remain the same
- Long-term workstreams
- Organic growth
- Making our business better for all stakeholders
- Persistent execution of strategy gives us high quality earnings
- Quality of earnings demonstrated by 5 consecutive years of no exceptions

Construction

Medium-term target: **Consistently make 2.5% to 3% margin**

Route map

- Margin more important than turnover
- Managing risk to ensure quality of earnings
- Increasing presence in some geographical areas

Market conditions

- Balance sheet important to more clients
- Increasing barriers to entry for high quality work
- Converting 2-stage tenders slower at present

Outlook

- Expect modest turnover growth year on year
- High visibility of work for 2021 and 2022
- Expect progress towards target margin in 2021

Infrastructure

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Medium-term target: 3.5% margin

Route map

- Long-term relationships and workstreams
- Continuous concentration on operational efficiency
- JVs only when clear competitive advantage

Market conditions

- With the exception of aviation the market is strong
- Clients increasingly value strong relationships and partnerships
- Stable market for our design business

Outlook

- Government committed to infrastructure spend
- Order book bigger and longer term
- Expect progress towards target in 2021

Fit Out

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Medium-term target: **Profit to be at or around £35m pa**

Route map

- Maintain market share in commercial office market
- Increase market share in work for the government
- More work from frameworks

Market conditions

- Market remains buoyant
- Several large pre-let buildings finishing construction
- Clients looking to repurpose space for the new working environment

Outlook

- High level of enquires at present
- Strong design and build market
- Expect target to be met in 2021

Property Services

Medium-term target: **Profit of at least £10m pa**

Route map

- Revenue and margin growth
- Market ready for a disrupter
- Large available market

Market conditions

- Strong current bidding activity. Key is maintaining selectivity
- Social value increasingly important
- Expect market to get less fragmented

Outlook

- Expect to gain further market share
- Progress towards target expected in 2021

Partnership Housing

Medium-term target: **6% operating margin / ROCE > 20%**

Route map

- Increase turnover
- More geographical coverage
- Increase number of mixed tenure schemes

Market conditions

- High level of bidding activity
- Larger schemes coming to the market
- Open market values and volumes currently good

Outlook

- Strong government support for affordable housing
- Revenue and capital employed will be higher in 2021
- Progress towards targets expected in 2021

Urban Regeneration

Medium-term target: **3-year rolling average ROCE up towards 20%**

Route map

- Increase activity off the same cost base
- More efficient use of capital
- Increase geographical coverage

Market conditions

- Regeneration high on government agenda
- Most commercial markets currently weak
- Large number of long-term opportunities

Outlook

- Drag on ROCE from schemes inherited from Investments
- Medium-term prospects very encouraging
- Only modest progress towards medium-term target expected in 2021

Medium-Term Targets & Outlook Summary

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	Previous Target (pre-C-19)	2020 actual	Target as at February 2021	2021 Outlook
Construction	Consistent margin 2.5%-3%	Margin of 1.2%	Consistent margin 2.5%-3%	• Expect progress towards target margin
Infrastructure	Margin of 3%	Margin of 2.9%	Margin of 3.5%	• Expect progress towards target margin
Fit Out	Profit at or around £35m pa	Profit of £32.1m	Profit at or around £35m pa	• Expect target to be met
Property Services	At least £10m profit pa	Profit of £1.0m	At least £10m profit pa	• Progress towards target expected
Partnership Housing	6% margin/ROCE > 20%	3.7% margin/11% ROCE	6% margin/ROCE > 20%	• Progress towards targets expected
Urban Regeneration	3 year ROCE up toward 20%	14% (3 year average ROCE)	3 year ROCE up toward 20%	• Only modest progress towards medium-term target expected

Expect 2021 profit to be materially ahead of our previous expectations and slightly ahead of that delivered in 2019

Reducing our Carbon Emissions

Steve Crummett

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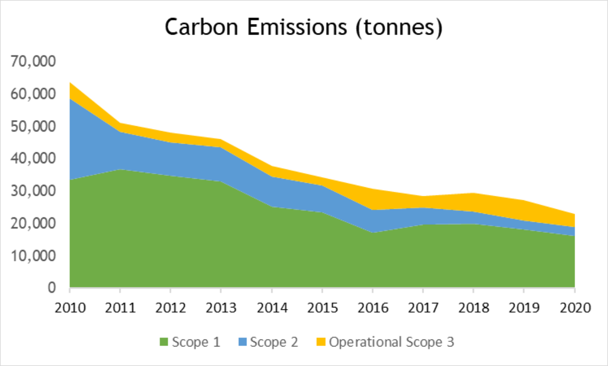
Our Responsible Business strategy

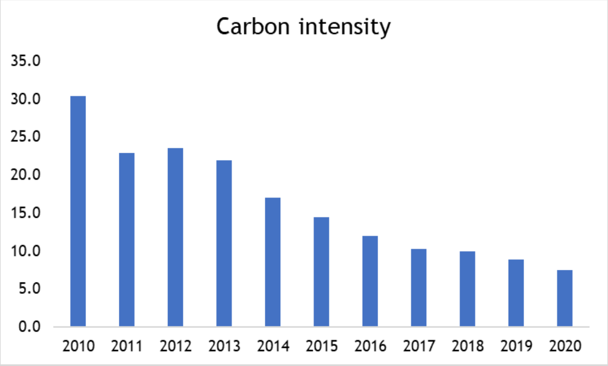
- Framework for a common strategy focused on all stakeholders. In place since 2008
- Report on progress through set of established KPIs
- Support the UN Sustainable Development Goals

Climate change - Our carbon credentials

13 CLIMATE ACTION

- Independently audited by The Carbon Reduce Scheme (formerly CEMARS[1]) since 2010
- CDP[1] leadership score of 'A' awarded in 2020
- Targets approved by the Science-Based Targets Initiative[1]
  - one of the first construction companies globally to gain accreditation
- 64% reduction in emissions (Scopes[1] 1,2 & operational 3) since 2010
- Carbon intensity down 75% since 2010. 2020: 7.5





Carbon intensity = emissions per £m revenue

[1] See appendix for definitions

Reducing carbon emissions – what we're already doing

Green Apple award for ecology and biodiversity works

- Infrastructure constructed new 840m stretch of river at Werrington
- Achieved a biodiversity net gain by improving wildlife habitats
- Additional flood capacity and biodiversity features
- Protected species surveys and translocation

Hydrogen fuel cell technology on Hackney project

- Being trialled by Construction
- Zero carbon fuel at point of delivery
- Produces water only
- No harmful NOx or PM2.5 when in operation
- Hydrogen cylinders delivered by road bike

Virtual energy cafes

- Set up by Property Services
- Guidance for local residents on making their homes more energy efficient, paying energy bills, keeping homes free from condensation and mould
- Access to an Energy Redress Scheme for those affected by Covid – vouchers for topping up meters

Reducing our carbon emissions

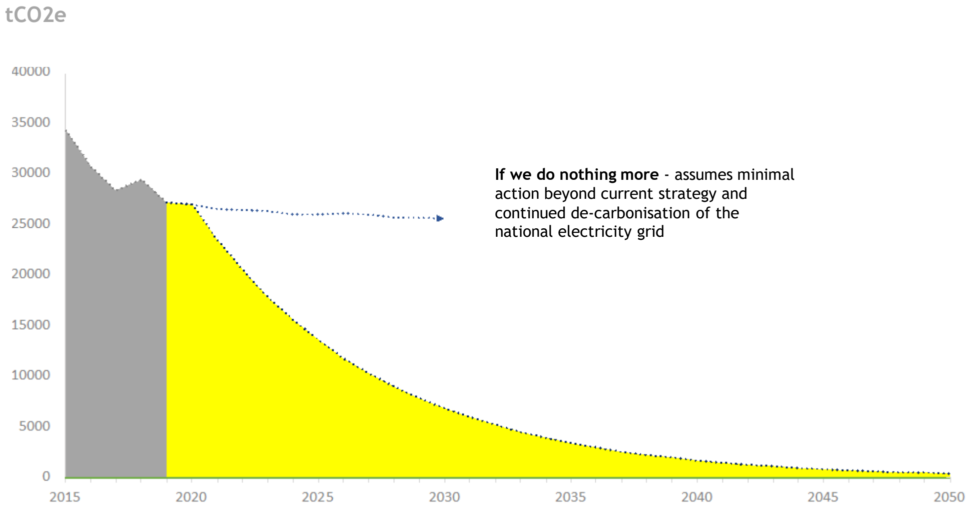
- What is included ?

Scope 1[1]
Scope 2[1]
Operational Scope 3[1]

All measured, reported and verified. Externally audited

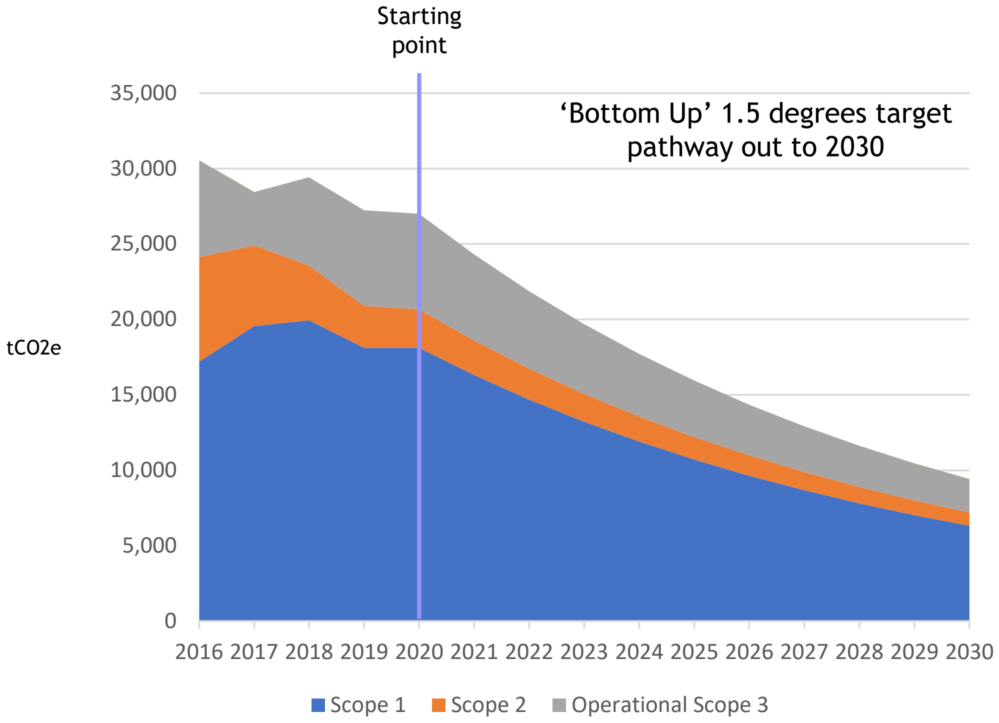
Science-Based Targets are calculated to eliminate all emissions to atmosphere by 2050

Graph shows our 'top-down' 1.5 Degrees[2] aligned (science-based) carbon emissions reduction pathway



[1] See appendix for definitions
[2] Targets are based on the 2015 International Treaty on Climate Change, known as the Paris Agreement, which seeks to limit global warming to well below 2 degrees Celsius. These are currently being revised to re-align to the specific accepted norm of limiting global warming to no more than 1.5 degrees Celsius

Following the science-based pathway to zero emissions



- Reproduced and validated the target 1.5 degrees pathway 'Bottom Up' out to 2030
- Internal tool to flex the impact on carbon emissions of various actions
- Robust route map taking into account growth in the business along the way

Following the science-based pathway to zero emissions

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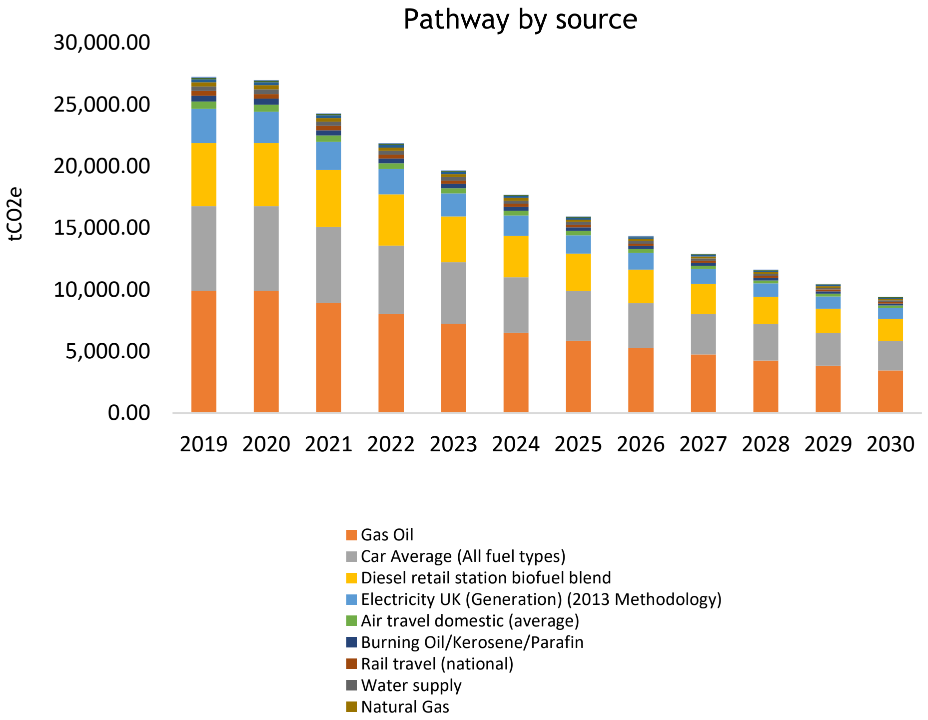
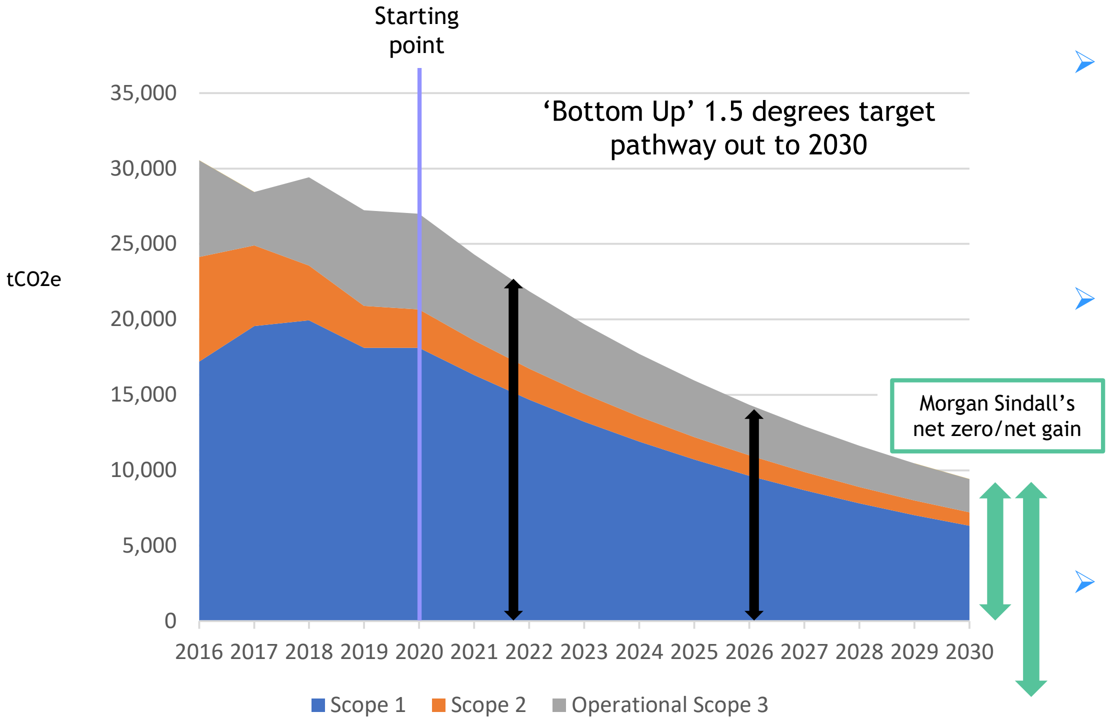
Specific identified actions to achieve

- Reduce site and equipment consumption
  - Applies to: Gas Oil, Natural Gas, Burning Oil/Kerosene/Paraffin
- Commercial fleet and cars – electric vehicles and annual mileage
  - Applies to: Gas Oil (red diesel), Diesel & Petrol retail station biofuel blend, Car average (all fuel types)
- Electricity – efficiencies and 100% renewable energy
  - Applies to: electricity UK (generation) and (T&D losses). NB: Transmission and Distribution losses is proportionate emissions amount applied to each kWh of energy sourced
- Reduce air travel domestic (average) emissions switch to rail travel
- Apply onsite process efficiencies and re-use to reduce water supply emissions, waste disposal/aggregate materials emissions



What does ‘net zero’ mean ?



- At any one time, ‘net zero’ or ‘net gain’ could be claimed by investing £ in offsetting activities
  - …but this doesn’t achieve the goal of eliminating all emissions
- Offsets not currently accepted as part of an organisation’s science-based targets
  - …but can play a role in compensating for emissions
  - Recognised offsets may be allowed in due course
- Our offsetting activities will be long term and sustainable. Multi-generational and based in the UK
  - Will provide ancillary benefits of improved biodiversity and population wellbeing

Carbon emissions - our commitment

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Morgan Sindall's carbon commitment

- Continue with transparent and externally verifiable science-based targets and fulfil the actions required to 'follow the pathway' to zero emissions by 2050

- Invest in such UK carbon reduction initiatives which have a long term, generational impact
- Be at least 'Net Zero' (as defined in previous slide), more probably 'Net Gain' by 2030 latest

Internal carbon charge introduced from 1 January 2021

[1] See appendix for definitions

Carbon emissions - the journey beyond

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- We need to address all of our Scope 3 emissions i.e. from supply chain and end-users of buildings
- To help our supply chain measure, report and reduce their emissions, we:
  - launched a portal in 2020 for reporting emissions
  - developed the Carbon Calculator tool to measure a project's total carbon emissions[1]
  - are working with supply chain to reduce emissions from plant and equipment, and reduce waste in delivery of materials
  - named a Supplier Engagement Leader by CDP for its work to drive action on climate change along its supply chain

- Urban Regeneration, through its JV English Cities fund. Salford Central
- Designed to be 'net zero' in operation
- 115,000 sq ft 'fossil-fuel' free office
  - Living façade. Removal of air pollutants. Net gain in biodiversity for local area
  - Improved wellbeing of occupants

[1] See appendix for definitions

Summary

Summary

- No change to strategy
- Expect to increase market share in most of the areas we operate in
- Reintroduced medium-term targets
- Strong balance sheet allows us to make the right long-term decisions
- Clear and transparent path to reducing our carbon emissions
- Expect profit in 2021 to be slightly ahead of that delivered in 2019

Questions?

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Thank You

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Morgan Sindall Group Full Year Results 2020

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Appendices

Net finance expense

£m	FY 2020	FY 2019
Interest payable on drawings on bank facilities	(1.3)	(0.1)
Amortisation of fees & non-utilisation fees	(1.7)	(1.6)
Interest expense on lease liabilities (IFRS 16)	(1.7)	(1.7)
Interest from JVs	0.6	1.0
Other	(0.5)	(0.3)
Total	(4.6)	(2.7)

- Higher interest charge due to precautionary initial drawing on unused bank facilities in March

Adjusted earnings per share

£m	FY 2020	FY 2019
Profit after tax	45.4	71.2
Adjusted for:		
Amortisation of intangibles (net of tax)	2.5	1.5
Impact of change in tax rate on deferred tax balances	1.5	-
Adjusted earnings	49.4	72.7
Average number of shares	45.5m	45.1m
Adjusted earnings per share	108.6p	161.2p

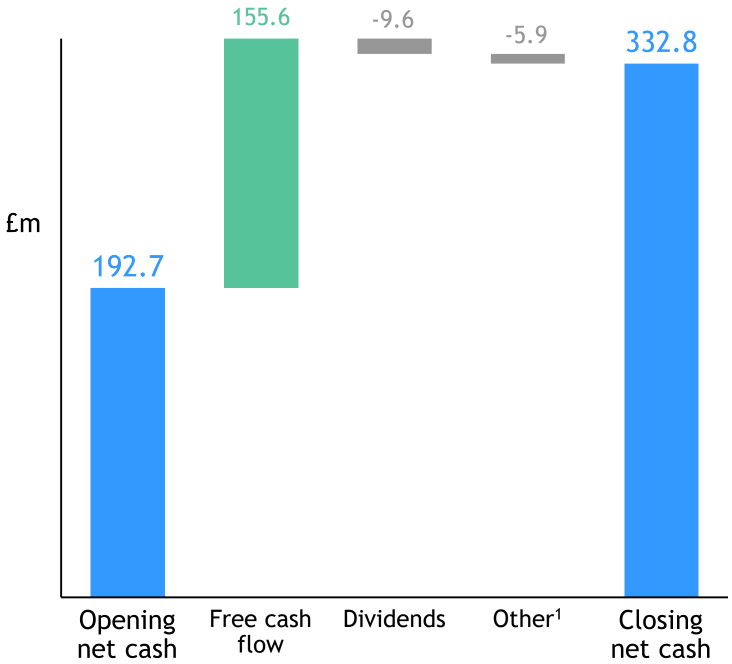
Tax

£m	FY 2020	FY 2019
Profit before tax	60.8	88.6
Less: share of net JV profit	(2.3)	(6.5)
Profit subject to tax	58.5	82.1
Statutory tax rate	19.0%	*19.0%*
Current tax charge at statutory rate	(11.1)	(15.6)
Tax on joint venture profits[1]	(0.6)	(1.3)
Change in tax rate on deferred tax balances	(1.5)	-
Prior year adjustments	(0.2)	0.5
Other adjustments (including CJRS furlough repayment[2])	(2.0)	(1.0)
Tax charge	(15.4)	(17.4)
Tax on amortisation	(0.6)	(0.3)
Effect of change in tax rate on deferred tax	1.5	-
Adjusted tax charge	(14.5)	(17.7)

[1] Most of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture

[2] During 2020 the Group claimed £9.5m from HMRC under the UK Government's CJRS furlough scheme, upon which corporation tax of £1.8m was paid. Later in 2020 the Group voluntarily repaid the CJRS furlough claims. The repayment was structured such that £7.7m was repaid directly (being 81% of the total received), recognised in central Group costs, with the remaining £1.8m repaid (as above) to HMRC in additional corporation tax, as the repayment through central Group costs is not tax deductible.

Net Cash Movement



[1]*'Other' includes net loans advanced to JVs (£12.9m), the purchase of shares in the Company by the employee benefit trust (£9.6m) and a payment to acquire an additional interest in a JV (£0.1m); less proceeds on the disposal of interests in joint ventures (£8.3m), proceeds from the sale of other investments (£0.5m), proceeds from the issue of new shares (£7.0m) and proceeds from the exercise of share options (£0.9m)*

- Year end net cash of £333m

Capital employed in Regeneration

MORGAN SINDALL GROUP

£m	Regeneration	Partnership Housing	Urban Regeneration
Total net land & regeneration WIP	**259**	190	69
Unsold completed units (excl. joint ventures)	**14**	13	1
Amounts invested in joint ventures	**62**	21	41
Shared equity loans and investment properties	**8**	8	-
Other working capital	**(141)**	(114)	(27)
Non-recourse debt	**-**	-	-
Other net assets	**5**	4	1
Total capital employed at 31 December 2020	**207**	122	85
Total capital employed at 31 December 2019	**240**	132	108

Carbon emissions – Background and terminology

1. **CDP** is a global non-profit organization that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US$106 trillion, it leverages investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020.

2. Following the global agreement on climate change action, (CoP 21, Paris, December 2015) companies were encouraged to set greenhouse gas emissions reduction targets based on science. Targets are calculated according to the reduction required to keep global warming within an agreed level of temperature rise. Originally, the Paris Agreement was written around a 2°C warming model pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees Celsius, above pre-industrial levels. The calculation of targets varies according to industry sector and the contribution the sector makes to global emissions.

3. Science-Based Targets are calculated to eliminate all emissions to atmosphere by 2050. The **Science-Based Targets Initiative** is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and World-Wide Fund for Nature (WWF). The initiative uses the latest available climate science to define best practice in science-based target-setting, offers resources and guidance to reduce barriers to adoption and independently assess company's assets against validation criteria.

4. The Carbon Reduce Scheme (formerly the Carbon & Energy Management And Reduction Scheme (**CEMARS**))

5. The Greenhouse Gas Protocol is a globally recognised framework for measuring and managing greenhouse gas emissions. The Protocol defines three types – scopes – of emissions.

Scope 1 (direct emissions) covers the direct emissions to air under an organisation's control. These mainly include gas boilers and fuel used in vehicle fleets.
Scope 2 (indirect emissions) covers the emissions produced during the generation of electricity that's purchased and consumed by an organisation. Published emissions factors are used as multipliers to calculate Scope 2 emissions based on consumption. As the generation of electricity shifts away from fossil fuels, these emissions factors change.
Scope 3 covers all other indirect emissions, upstream and downstream of your business. In all there are 15 categories for Scope 3 emissions. Some are relatively simple to measure and report (e.g. air travel and commuting) others are more difficult (e.g. purchased goods and materials and products in use). The easier ones are generally reported as part of an organisation's emissions (often referred to as "limited disclosure"). If a company's Scope 3 emissions are 40% or more of their total emissions, reduction targets for Scope 3 need to be included as part of agreed Science Based Targets. (This includes all 15 categories, where they are relevant or significant).

Our direct Scope 1 and Scope 2 emissions arise predominantly from bulk fuel used on sites, our vehicle fleet and electricity use.
Our emissions are broken down as follows:

Scope 1
Other fuels – emissions via air conditioning (kg of gas recharge and gas type), generation of electricity (fuel consumption/litres of gas oil)
Passenger vehicles – petrol purchased on Arval fuel cards (Litres) or via expense claims and employees mileage claims (miles)
Transport fuels
Natural gas (kWh)

Scope 2
Electricity purchased (kWh)
Steam & heat purchased from offsite (kWh)
Electricity consumed in landlord-controlled offices (metres cubed of lease floor area)

Operational Scope 3
Electricity upstream generation, transmission and distribution losses
Transport – other – public transport including air travel, train or tube (passenger miles), supplier freight (miles)
Waste – tonnes of waste produced
Water and waste water – metres cubed of potable water consumption and waste water generation

6. Total emissions include: i) carbon embodied in the materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling); (ii) carbon emitted during construction (via energy use and waste); and (iii) estimated carbon emitted from operating the buildings for 60 years following handover to the client, based on how our clients tell us they will use the buildings.

Carbon emissions - Background

Offsets

Offsets are a mechanism whereby companies can effectively buy "credits" to reduce the balance of its carbon emissions. An offset is generally an investment in a recognised emissions reduction activity or process that reduces or removes carbon dioxide, and other greenhouse gases such as methane, from the atmosphere. Offsetting is a relatively complex subject and not all offsets are recognised by the UN, who publish a list of recognised projects. Offsets are not currently accepted as part of an organisation's Science Based Targets. However, according to the Science Based Targets Initiative, the body responsible for approving and assuring Science Based Targets, offsetting can play two roles in science-based **net-zero strategies**:

1. In the transition to net-zero: Companies may opt to compensate or to neutralise emissions that are still being released into the atmosphere while they transition towards a state of net-zero emissions;
2. At net-zero: Companies with residual emissions within their value chain are expected to neutralise those emissions with an equivalent amount of carbon dioxide removals

Net Zero

The ambition of many countries and organisations is to become net zero, effectively having a zero account on their carbon balance sheet. True net zero emissions are represented by the Science Based Targets Initiative's 2050 goal. However, not all industries will be able to meet this target no matter what measures are implemented to reduce emissions. For example, current technology will not enable the aviation sector to become true net zero. The current terminology for Net Zero is not the same as achieving zero emissions by 2050 (Science Based Targets). In the past, some companies have claimed to be carbon neutral (net zero) simply by purchasing a large amount of offsets (often forestry). It is still possible for a company to become "net zero" almost immediately by offsetting. However, this doesn't ultimately achieve the goal of eliminating all emissions.

Responsible businesses are now approaching Net Zero by examining their carbon emissions trajectory (often one that has been approved by the Science Based Targets Initiative) at two levels: reductions made possible by behavioural change and reductions through development and implementation of new technologies. It is only then that any remaining emissions are offset. The type of offsetting implemented to achieve net zero is currently up to the individual organisation, but there are many offsets provided on the market which do not meet accepted quality criteria. Quality carbon offset credits must be associated with greenhouse gas reductions or removals that are:

- Additional (i.e. that the mitigation activity would not have taken place in the absence of the added incentive created by the carbon credits)
- Not overestimated
- Permanent
- Not claimed by another entity
- Not associated with significant social or environmental harms

Source: Securing Climate Benefit - A Guide to Using Carbon Offsets. Stockholm Environment Institute & Greenhouse Gas Management Institute.