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Morgan Sindall Group plc

Half Year Results 2011

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Overview

- Group delivered a solid performance in line with our expectations, in market conditions that remain challenging
- Remain cautious on short-term outlook for construction markets
- Positioning Group for market recovery 2013+
- Construction businesses growing revenues but margins under pressure; contract selectivity remains important
- Increasing emphasis on regeneration and maintaining investment related bidding
- Investment-led, complex schemes leading to more joined-up and innovative approaches
- Group in robust financial shape
- Maintained dividend reflects confidence in medium term outlook

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2011 Financial Highlights

- Adjusted profit before tax[1] at £19.5m (2010: £23.1m) on slightly increased revenue of £1.09bn (2010: £0.98bn)
- Profit before tax at £16.7m (2010: £18.4m)
- Adjusted earnings per share[1] of 35.1p (2010: 42.0p)
- Non-recurring items in period of £0.9m (2010: £1.9m), relating to systems changes following 2010 creation of Construction & Infrastructure division
- Interim dividend maintained at 12.0p (2010: 12.0p)
- Cash performance
  - Average cash for the YTD at £43m (2010: £61m)
  - Net cash at 30 June 2011 of £65m (2010: £138m)
  - £125m of committed bank facilities currently in place; £100m to September 2015 and £25m to June 2012

1 Before amortisation of intangible assets (£1.9m), non-recurring costs (£0.9m) and adjusted for one-off tax benefit (£2.6m)

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Financial Summary

£m	Six months to June 2011	Six months to June 2010
Revenue	**1,087**	982
Adjusted PBT	**19.5**	23.1
Non-recurring costs	**(0.9)**	(1.9)
Amortisation	**(1.9)**	(2.8)
Profit before tax	**16.7**	18.4
Effective tax rate	**27%**	29%
Tax charge [2]	**(1.8)**	(5.3)
Profit after tax	**14.9**	13.1
Net assets	**225.0**	209.3
Adjusted EPS [1]	**35.1p**	42.0p
Interim dividend per share	**12.0p**	12.0p

1 Before amortisation of intangible assets, non-recurring costs and adjusted for one-off tax benefit
2 Details on next slide

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Financial Summary – Income Tax Expense

£m	Six months to June 2011	Six months to June 2010
Current tax		
UK tax	**4.4**	5.3
Prior period adjustment	**(22.4)**	-
Current tax expense	**(18.0)**	5.3
Deferred tax		
Current year	**-**	-
Prior period adjustment	**19.8**	-
Deferred tax expense	**19.8**	-
Income tax expense	**1.8**	5.3

- Successfully settled fair value matter with HMRC
- £2.6m one-off benefit to tax charge
- Benefit arises due to difference in tax rates between current tax charge (27-30%) and deferred tax charge (26%)

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Balance Sheet

£m	June 2011	June 2010
Intangible FA	**229.0**	203.3
Tangible FA	**25.5**	30.1
Investments (incl. Joint ventures)	**53.8**	47.7
Shared equity loan receivables	**15.7**	11.4
Inventories	**157.7**	147.3
Other working capital	**(294.3)**	(339.3)
Current and deferred tax	**(25.6)**	(26.3)
Pension scheme	**(1.7)**	(3.0)
Cash	**64.9**	138.1
Net assets	**225.0**	209.3

- Increase in Intangible FA related to Connaught acquisition
- Continued use of shared equity to drive open market house sales
- Increased investment in regeneration reflected by increased inventories
- Defined benefit pension deficit of only £2m (2010: £3m)

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Cashflow

£m	**Six months to June 2011**	Six months to June 2010
Operating profit	**16.8**	18.0
Non-cash and other adjustments	**7.5**	4.9
Working capital movement	**(86.2)**	25.2
Net investment in PPE	**(3.4)**	(0.6)
Income tax	**(3.6)**	(3.4)
Dividends	**(12.7)**	(12.7)
Interest	**(0.2)**	0.9
Payment for acquisitions/JVs	**(0.5)**	(11.3)
Other cashflows	**(1.4)**	(0.6)
Net cashflow	**(83.7)**	20.4
Cash at beginning of period	**148.6**	117.7
Cash at end of period	**64.9**	138.1

- Net cashflow for the period significantly impacted by working capital movement. This is due to
  - Strong cash performance at 2010 year end unwinding
  - Increasing investment in inventories
  - Timing of Hull BSF close
- Average cash £43m (2010: £61m)
- Period end cash at £65m (2010: £138m)
- Five year operating profit to cash conversion remains healthy at 99%

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Market Overview

Market sectors	2011 est. £bn	Change
Infrastructure	11.2	+1%
Private Industrial & Commercial	26.6	+1%
Public Non-Residential	11.9	-10%
Private Housing	12.5	+3%
Public Housing (incl R&M)	9.6	-9%
Private Housing R&M	9.9	-3%
Public Non-Residential R&M	6.2	-5%
Private Non-Residential R&M	10.8	n/c
Total Construction Market	**98.7**	**-2%**

Construction & Infrastructure

Urban Regeneration

Affordable Housing

Fit Out (£1.8bn potential market)

Investment led opportunities

Source: Experian, values at 2005 prices

Market Positioning

- Construction & Infrastructure: focus on growth sectors of rail, airports, commercial/industrial and power distribution
- Affordable Housing: building on market leading position offering full service capability; increasing investment in mixed tenure
- Fit Out: growing market share and being selective; focusing on key market opportunities and broadening business
- Urban Regeneration: increasing activity across portfolio; replanning schemes to reduce reliance on grant funding
- Investments: focus on larger, more complex projects, particularly land-swap opportunities, where breadth of capabilities in joined-up approach can be deployed
- Overall change in future business mix with shift from traditional contracting to regeneration and development projects

Market Trends

- Public sector declining, commercial sector growing, regulated sector steady
- London-led commercial recovery
- Switch from investment in social to economic infrastructure
- Investment-led, land-swap and mixed tenure housing schemes growing in importance

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Segmental Analysis

£m	**Six months to June 2011**			Six months to June 2010		
	Revenue	**Profit**	**Margin**	Revenue	Profit	Margin
Construction & Infrastructure	**617**	**9.5**	**1.5%**	612	12.2	2.0%
Affordable Housing	**228**	**8.3**	**3.6%**	173	6.9	4.0%
Fit Out	**222**	**6.1**	**2.7%**	179	6.9	3.8%
Urban Regeneration	**19**	**1.0**	**-**	15	0.8	-
Investments	**1**	**(2.1)**	**-**	3	(0.4)	-
TOTAL REVENUE	**1,087**			982		
Group activities		**(3.2)**			(3.7)	
Interest		**(0.1)**			0.4	
Normalised PBTA		**19.5**	**1.8%**		23.1	2.3%
Non-recurring items		**(0.9)**			(1.9)	
Amortisation		**(1.9)**			(2.8)	
PBT		**16.7**			18.4	

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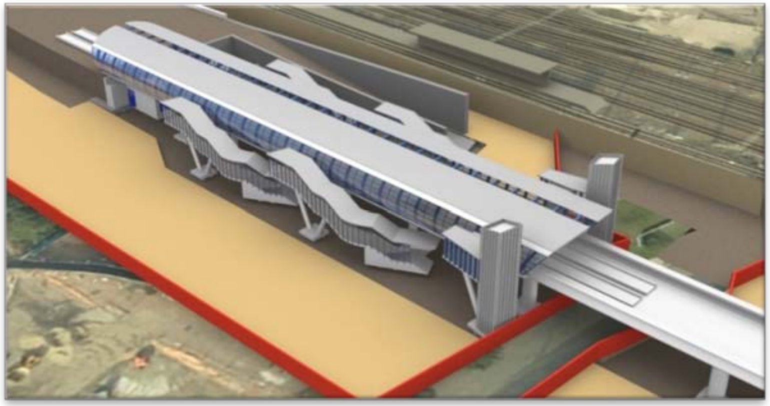
Construction & Infrastructure

iESE Tier 1 Framework – Bay House School, Gosport



Pudding Mill Lane

Construction & Infrastructure – Market & Trading Highlights

Revenue			Adjusted Operating Profit		
2011	2010	Change	**2011**	2010	Change
£617m	£612m	+1%	**£9.5m**	£12.2m	-22%

- Market remains competitive
- Recovery of London commercial sector
- Construction revenue £402m (2010: £345m) and Infrastructure revenue £215m (2010: £267m)
- Margin as expected at 1.5% (2010: 2.0%) due to competitive market and changing work mix
- Secured a number of major new frameworks; Smarte East, SEWSCAP, Gatwick, Milton Keynes and iESE
- Education sector remains important; universities and local authority frameworks
- Key infrastructure projects secured; Pudding Mill Lane, Liverpool Street & Aldgate tunnels and M62 upgrade
- Maintained healthy flow of new projects

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Construction & Infrastructure – Integrated Capabilities

Capabilities
Utilities Services
Tunnelling
Infrastructure
Construction
Professional Services

Sectors	2011 est. £bn	Trend
Water	2.9	↔
Gas	1.0	↑
Electricity	1.5	↑
Road	3.4	↓
Rail	3.0	↑
Aviation	1.0	↑
Defence/other public	2.3	↓
Education	5.4	↓
Health	2.1	↓
Commercial/industrial	26.6	↑

- Focus on growth sectors; driven by investment in economic infrastructure
- Education remains important despite spending cuts; new PFIs announced
- Established track record in growth areas

Source: Experian, values at 2005 prices

Construction & Infrastructure – Outlook

- Market will remain highly competitive
- Heavy impact of public sector spending cuts over next two years
- Increasing investment in economic infrastructure
- Focus on growth sectors of rail, airports and energy distribution
- Also focus on London commercial sector
- Continue to improve project delivery and increase contract selectivity
- Forward order book at £1.9bn (2010: £2.1bn)

Affordable Housing

Renaissance Scheme, Nuneaton
(part of the Camp Hill regeneration programme)

Northshore Regeneration Scheme, Stockton-on-Tees
(Lovell/Muse JV)

Affordable Housing – Market & Trading Highlights

Revenue			Adjusted Operating Profit		
2011	2010	Change	**2011**	2010	Change
£228m	£173m	+32%	**£8.3m**	£6.9m	+20%

- Market holding steady but competitive; new build, planned and response maintenance resilient
- Open market remains constrained by lack of mortgage availability; shared equity and other initiatives for first time buyers remain important
- Market leading position with full service offering; broader client base following last year's acquisitions
- Growth driven by new build social housing and response maintenance
- Secured first retrofit photo-voltaic opportunities in emerging market; built on new build PV experience
- Sold 177 open market units (2010: 168) at ASP of £138k (2010: £141k)
- Margin at 3.6% (2010: 4.0%)
- Connaught debt recovery to date on target at £17m

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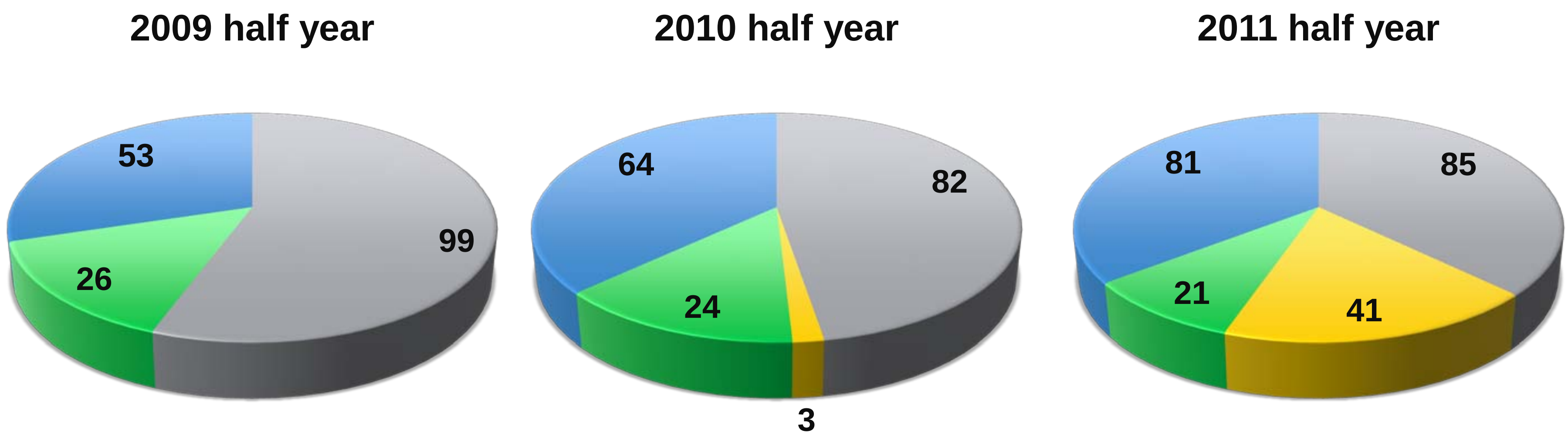
Affordable Housing – Market Sectors



Revenue £178m £173m £228m

Planned Maintenance   Response Maintenance   Open Market   New Building Social Housing

- Full service capability
- Growing response maintenance
- Expect mixed tenure to expand open market and new build in medium term

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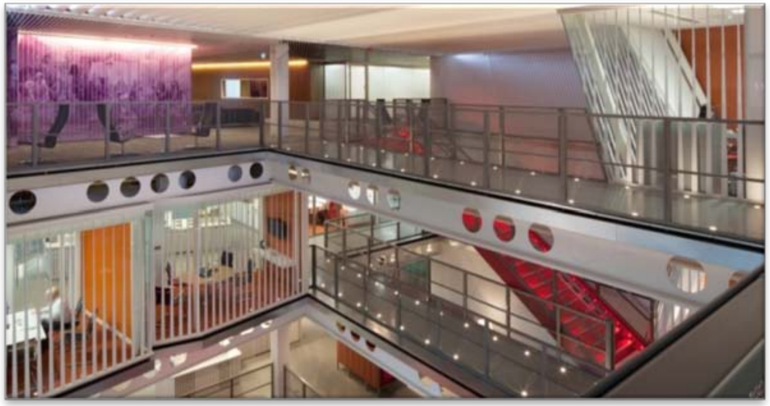
Affordable Housing – Outlook

- Market pursuing alternative funding models; bond finance, institutional funding and affordable rent
- Full-service offering provides growth potential; particular focus on mixed tenure and integrated maintenance opportunities
- Remain cautious on open market recovery
- Expect to increase investment in mixed tenure over next two years; plots under control increasing
- Continued outsourcing of maintenance
- More innovative, land-swap projects to overcome lack of grant funding
- Sustainability and energy efficiency driving market; retrofit opportunities in Decent Homes 2 and photo-voltaics
- Order book steady at £1.5bn (2010: £1.4bn)

Fit Out

overbury
a passion for perfection

Morgan Lovell
Inspiring office transformation



Macquarie Group, London

HSBC, London

Fit Out – Market & Trading Highlights

Revenue			Operating Profit		
2011	2010	Change	**2011**	2010	Change
£222m	£179m	+24%	**£6.1m**	£6.9m	-12%

- Credible performance in very challenging market conditions which have impacted margins in the short term
- Key opportunities secured; overall growth in market share helping to deliver solid operating profit
- Success with international banks investing into London financial services sector
- Maintained careful project selectivity
- Margin tighter at 2.7% (2010: 3.8%)

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Fit Out – Outlook

- Market remains tight due to lack of large project opportunities; availability of grade A space remains tight
- Expect market to begin to gradually improve from 2012 as new commercial property eases constraints on market
- Refurbishment focus in short term
- Expect to maintain revenue in second half of 2011
- Growth in retail banking and technology
- Forward order book at £133m (2010: £213m); order book will rebound following confirmation of recent contract awards

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Urban Regeneration

Rathbone Market, Canning Town

Wakefield Council offices, Wakefield

Urban Regeneration – Market & Trading Highlights

Revenue			Adjusted Operating Profit		
2011	2010	Change	**2011**	2010	Change
£19m	£15m	+27%	**£1.0m**	£0.8m	+25%

- Overall level of activity continues to improve slowly; on site with £110m of construction work (2010: £58m)
- Acquired partner's share of North Shore development at Stockton; commenced first phase with Lovell
- Appointed preferred bidder at Warrington (£130m)
- Continued steady improvement in performance
- Capital employed in business at £66m (2010: £62m)

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Urban Regeneration – Outlook

- Market slowly recovering
- Increasing importance of regeneration in medium term; investing in projects to drive growth
- Quality of portfolio of development agreements remains excellent
- Muse shortlisted for a number of development opportunities
- Long term pipeline growing with share of regeneration schemes at £1.4bn (2010: £1.4bn) with further £0.4bn schemes at preferred bidder

Investments

Hull BSF

Bournemouth LABV

Investments – Portfolio and Highlights

	Capital value £m	MS equity/loan stock £m
Health	292	4.3
Emergency Services	71	1.8
Roads	137	6.0
Community	368	2.3
Invested to date		14.4
Directors' valuation at discount rates (7-9%)		42.0
Committed but not invested		12.0
Current carrying value		19.0

- Operating cost £2.7m (2010: cost of £0.9m); income from JVs £0.6m (2010: £0.5m)
- Traditional PFI market quiet; focus on land-swap opportunities as public funding reduces
- Financial close of Bournemouth Regeneration LABV (£350m+) in period and next tranche of schools at Hull BSF in July
- Appointed preferred bidder at Southampton Waterfront Scheme (£450m+)
- Directors' portfolio valuation £42m (2010: £39m) with further £12m committed but not invested

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Investments – Outlook

- Funding allocated for schools PFI; expect to be competitively bid
- Further Local Asset Backed Vehicle (“LABV”) partnership model opportunities
- Land-swap opportunities; draw on joined-up skills of the Group
- Bidding photo-voltaic opportunities in conjunction with Affordable Housing
- Development pipeline at £0.4bn (2010: £nil) and £0.4bn at preferred bidder

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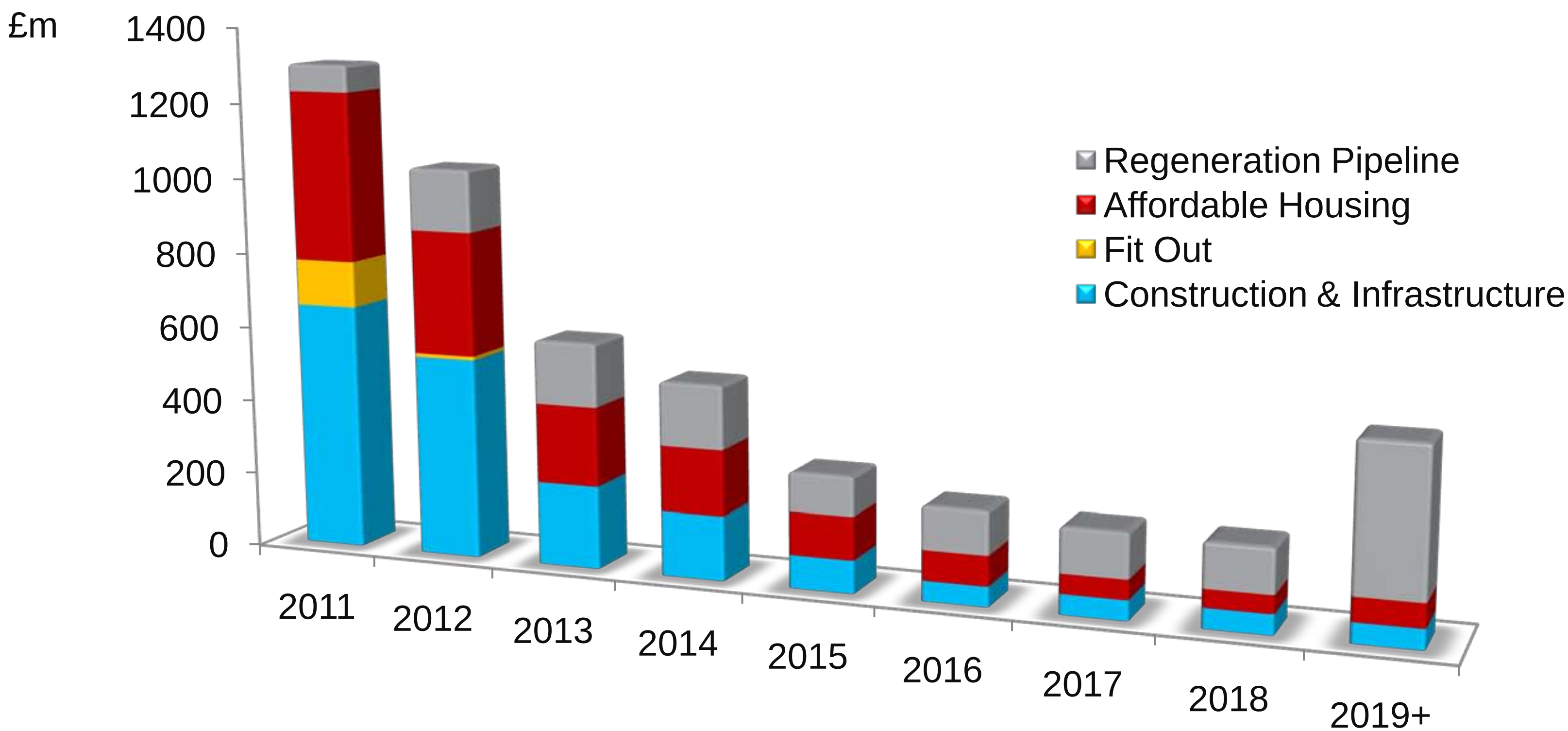
Order Book Profile



- 70% covered for next 12 months
- 30% of order book in frameworks
- Growing regeneration pipeline

Summary – Outlook & Prospects

- Short term expect market to remain challenging
- Positioning business to exploit regeneration opportunities; increase in regeneration pipeline
- Focus on more complex projects; more joined-up approaches
- Also focus on growth sectors in traditional contracting markets
- Continued emphasis on careful contract selection
- Forward order book steady at £3.5bn (2010: £3.7bn) with regeneration pipeline at £1.8bn (2010: £1.4bn) and with £0.8bn of regeneration schemes at preferred bidder

Notes

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