MORGAN SINDALL

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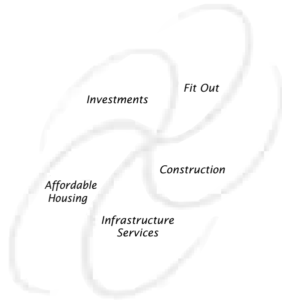
The Construction Brands Group

Interim Report **2001**



MORGAN SINDALL

Morgan Sindall plc is one of the fastest growing construction groups in the United Kingdom. With the acquisition earlier this year of Miller Civil Engineering Services Limited, an infrastructure services provider, the Group now has five divisions:

Affordable Housing

Lovell is the UK's leading provider of affordable housing. From seven regional offices, the company works in partnership with Registered Social Landlords and Local Authorities at the cutting edge of urban regeneration to create sustainable communities. Specialising in mixed tenure developments, Lovell offers flexible solutions for affordable housing, open market homes, design and build, refurbishments, PFI schemes and large scale urban regeneration projects.

Construction

A network of six construction companies providing geographical coverage of England and Wales. The emphasis is on the continuing development of strong regional brands that offer high levels of customer service combined with open access to senior management. Each of the brands has a significant and demonstrable track record in Education, Health, Commercial, Industrial, Leisure and Non-Food Retail sectors.

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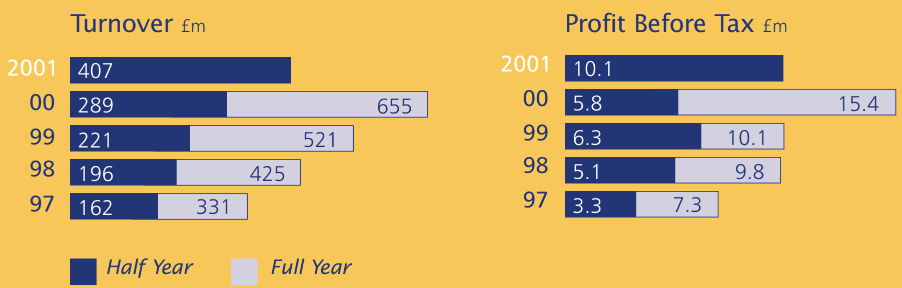
Financial Highlights

	Six months to June 2001 £'000s	Six months to June 2000 £'000s	Percentage Increase %
Turnover	**407,256**	288,754	+ 41
Profit before taxation	**10,095**	5,785	+ 75
Earnings per ordinary share	**19.45p**	11.08p	+ 76
Interim dividend per ordinary share	**4.00p**	3.00p	+ 33
Net assets	**60,299**	40,902	+ 47
Net cash funds	**15,441**	14,057	+ 10



The results for the half years ended 30 June 2001 and 2000 and the balance sheets as at those dates have not been audited and do not constitute statutory accounts. The figures for the year ended 31 December 2000 are an abridged version of the Group's statutory accounts for that year which received an unqualified audit report and which have been filed with the Registrar of Companies.

Chairman's Statement

We have seen a successful start to the year with record profits and two acquisitions being the key highlights. Profits before tax increased to £10.1 million (2000: £5.8 million) on turnover of £407 million (2000: £289 million), predominately driven by improved performances from our existing businesses.

The acquisition of Miller Civil Engineering Services Ltd ("MCES"), completed on 10 May made a small contribution but more importantly gives the Group a strong entry to the Infrastructure Services market.

The acquisition of Carillion Housing was completed on 31 July and will expand our range of expertise in Affordable Housing. The consideration was £6.25 million satisfied from cash resources. This will prove to be a major strategic development for the Division.

Our balance sheet remains strong and shows net cash of £15 million. The £20 million cost of purchasing MCES was in part funded by an issue of ordinary shares which raised £8.4 million. This placement helped restore tangible net worth which was reduced by the goodwill content of the acquisition.

Earnings per share are 19.45p (2000: 11.08p) and the Board has agreed to declare an interim dividend of 4.00p (2000: 3.00p).

Operating Performance

Affordable Housing
Lovell has made an excellent start to the year with turnover of £66 million (2000: £50 million) and operating profit of £1.90 million (2000: £1.1 million). The acquisition of Carillion Housing will add approximately £80 million per annum of turnover and makes Lovell the largest specialist provider of affordable housing. It also gives a unique skill set capable of meeting all the demands of the social housing market embracing PFI, design and build, refurbishment and open market development. This increased breadth of expertise will be particularly advantageous with large stock transfer schemes and those financed by PFI.

Construction
Turnover increased 35% to £193 million (2000: £143 million) and profits were also ahead by 39% to £2.37 million (2000: £1.70 million). Whilst I am pleased to see the strong growth in volume, we continue to seek further improvement in margin and accept that changes may well be needed to achieve the goal of a consistent minimum margin of 3% in all brands.

Fit Out
Operating profits for the six months to June were £5.66 million (2000: £4.24 million) on turnover of £113 million (2000: £97 million). This record performance has been achieved by working closely with

a client base that has been built up over the last twenty years and ensuring that we set ourselves ever-higher standards of delivery. Opportunities to expand both geographically and into other niche fit out markets will ensure this Division keeps moving steadily forward.

Infrastructure Services
MCES is a highly experienced infrastructure services provider operating in three distinct sectors: water, tunnelling and civils. In the two months following acquisition MCES contributed a modest £0.56 million of operating profit from £24 million turnover, which met our expectation that the company would be earnings enhancing from acquisition. We believe that the infrastructure services market is strong and growing and will be dominated by a smaller number of bigger well-funded operators. The MCES staff are confident that, with their track record and the support of Morgan Sindall, they will be one of the leading providers to this sector.

Investments
The improvement in property profits and interest of £2.13 million (2000: £0.78 million) reflects the successful sale of our refurbished property in Shepherds Bush. Our redeveloped building in Wigmore Street where the office element became income producing in February is now fully let. Our joint venture, Primary Medical Properties, has completed its six year development programme. It will now focus on managing its investment portfolio which will yield an increasing profit stream over the coming years. Together with returns from future PFI investments we will have a more predictable income stream from our balance sheet investment.

The Board
As previously announced, Jack Lovell, a founding director of Morgan Sindall, relinquished his executive responsibilities from the end of July. The Group will retain his input and counsel as he remains a Non-Executive Director and substantial shareholder.
I would particularly like to record my thanks to Jack with whom I have worked for twenty-four years and wish him well as he pursues new interests.

Outlook
With record results and with two acquisitions broadening our offering, Morgan Sindall is in good shape. Whilst we cannot be immune to the economy we operate within, our order book is strong, future potential work shows no sign of abating and we have strength in those areas where government expenditure is growing rapidly.

John Morgan
Executive Chairman
14 August 2001

Group Profit and Loss Account (Unaudited)
for the six months to 30 June 2001

	Unaudited Six months to June 2001 £'000s	Unaudited Six months to June 2000 £'000s	Audited Year to December 2000 £'000s
Turnover			
Continuing operations	**384,287**	289,003	655,980
Acquisitions	**23,641**	–	–
Less share of joint venture turnover	**(672)**	(249)	(1,144)
Group turnover	**407,256**	288,754	654,836
Cost of sales	**(365,842)**	(257,799)	(588,180)
Gross profit	**41,414**	30,955	66,656
Administrative expenses	**(32,263)**	(25,433)	(52,804)
Other operating income	**587**	394	897
Operating profit			
Continuing operations	**9,179**	5,916	14,749
Acquisitions	**559**	–	–
Total operating profit	**9,738**	5,916	14,749
Share of losses of joint venture	**(255)**	–	–
Net interest receivable	**612**	553	1,295
Exceptional loss on closure of discontinued operation	**–**	(684)	(684)
Profit on ordinary activities before taxation	**10,095**	5,785	15,360
Tax charge on ordinary activities	**(2,625)**	(1,590)	(3,964)
Profit on ordinary activities after taxation	**7,470**	4,195	11,396
Dividends on equity and non-equity shares	**(1,644)**	(1,238)	(4,163)
Retained profit for the period	**5,826**	2,957	7,233
Earnings per ordinary share	**19.45p**	11.08p	29.75p
Diluted earnings per ordinary share	**18.47p**	10.67p	28.58p

Group Balance Sheet (Unaudited)
as at 30 June 2001

	Unaudited June 2001 £'000s	Unaudited June 2000 £'000s	Audited December 2000 £'000s
Fixed assets			
Intangible assets	**29,615**	11,426	11,218
Tangible assets	**19,850**	12,981	11,865
Share of joint venture gross assets	**19,209**	15,291	17,929
Share of joint venture gross liabilities	**(18,375)**	(14,498)	(16,840)
Investment in joint venture	**834**	793	1,089
Investments	**1,293**	1,213	1,245
	51,592	26,413	25,417
Current assets			
Stocks	**39,970**	33,813	35,355
Debtors	**147,747**	104,384	117,964
Cash at bank and in hand	**15,441**	14,057	23,474
	203,158	152,254	176,793
Creditors: amounts falling due within one year	**(193,722)**	(137,765)	(156,510)
Net current assets	**9,436**	14,489	20,283
Total assets less current liabilities	**61,028**	40,902	45,700
Creditors: amounts falling due after more than one year	**(729)**	–	–
Net assets	**60,299**	40,902	45,700
Capital and reserves			
Called up share capital	**5,794**	6,714	5,686
Share premium account	**21,729**	11,810	13,064
Revaluation reserve	**4,259**	3,963	4,259
Profit and loss account	**28,517**	18,415	22,691
Total shareholders' funds	**60,299**	40,902	45,700
Shareholders' funds are attributable to:			
Equity shareholders' funds	**56,506**	36,049	41,907
Non-equity shareholders' funds	**3,793**	4,853	3,793
	60,299	40,902	45,700

Group Cash Flow Statement (Unaudited)
for the six months to 30 June 2001

	Unaudited June 2001 £'000s	Unaudited June 2000 £'000s	Audited December 2000 £'000s
Net cash inflow/(outflow) from operating activities	**4,412**	(4,475)	8,211
Returns on investments and servicing of finance			
Interest received	**812**	677	1,411
Interest paid	**(549)**	(281)	(615)
Dividends paid to preference shareholders	**(107)**	(136)	(253)
Interest paid on finance lease charges	**(6)**	–	–
	150	260	543
Taxation			
Corporation tax paid	**(1,820)**	(214)	(2,563)
Capital expenditure and financial investment			
Receipts from sale of fixed assets	**163**	104	8
Payments to acquire fixed assets	**(1,223)**	(1,434)	(2,288)
Payments to acquire fixed asset investments	**(194)**	(43)	(155)
	(1,254)	(1,373)	(2,435)
Acquisitions and disposals			
Purchase of subsidiary undertaking	**(20,162)**	–	750
Net cash acquired	**4,720**	–	–
	(15,442)	–	750
Equity dividends paid	**(2,852)**	(2,199)	(3,316)
Net cash (outflow)/inflow before financing	**(16,806)**	(8,001)	1,190
Financing			
Issue of share capital, net of expenses	**8,773**	16	242
Net cash inflow from financing activities	**8,773**	16	242
(Decrease)/increase in cash	**(8,033)**	(7,985)	1,432

Statement of Movements in Shareholders' Funds (Unaudited)
for the six months to 30 June 2001

	Unaudited June 2001 £'000s	Unaudited June 2000 £'000s	Audited December 2000 £'000s
Opening shareholders' funds	**45,700**	37,929	37,929
Retained profit for the period	**5,826**	2,957	7,233
Options exercised	**408**	16	242
New shares issued	**8,365**	–	–
Surplus on revaluation	**–**	–	296
Closing shareholders' funds	**60,299**	40,902	45,700

Notes to the Interim Report

1 Analysis of turnover and operating profit

	Unaudited six months to June 2001		Unaudited six months to June 2000	
	Turnover £'000s	**Profits/ (losses) £'000s**	Turnover £'000s	Profits/ (losses) £'000s
Construction	**193,107**	**2,371**	142,585	1,699
Fit out	**113,334**	**5,662**	96,578	4,235
Affordable housing	**66,167**	**1,899**	49,591	1,103
Infrastructure services	**23,641**	**559**	–	–
Investments	**11,007**	**1,513**	–	223
Group activities	**–**	**(2,266)**	–	(1,344)
Ongoing activities	**407,256**	**9,738**	288,754	5,916

2 Acquisition of Miller Civil Engineering Services Limited

On 10 May 2001 the Company acquired Miller Civil Engineering Services Limited. Consideration of £20 million was paid in cash on completion and there were costs of approximately £0.2 million which have been capitalised. Tangible net assets acquired were nil and in addition provisional fair value adjustments have been made recognising assets totalling £1.3 million. The resultant goodwill capitalised of £18.9 million is provisional and will be subject to any subsequent adjustments to fair value of the net assets acquired.

Notes to the Interim Report
for the six months to 30 June 2001

3 Earnings per share
The calculation of the earnings per ordinary share is based on the weighted average number of 37,850,000 ordinary shares in issue during the period and on the profit for the period attributable to ordinary shareholders of £7,363,000.

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £107,000 giving adjusted earnings of £7,470,000. The weighted average number of ordinary shares are adjusted for the dilutive effect of the convertible preference shares by 1,517,000, share options by 691,000 and contingent awards under the Long Term Incentive Plan of 383,000 giving an adjusted number of ordinary shares of 40,441,000.

4 Taxation
Taxation on current period profits is charged at 26% being the estimated effective rate of taxation for the year.

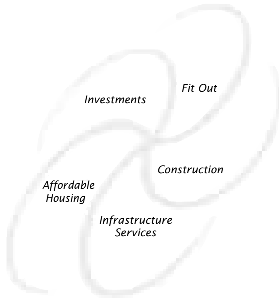
5 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	Unaudited Six months to June 2001 £'000s	Unaudited Six months to June 2000 £'000s	Audited Year to December 2000 £'000s
Operating profit	**9,738**	5,916	14,749
Depreciation of tangible fixed assets	**1,334**	1,006	2,082
Amortisation of goodwill	**472**	342	650
Loss/(profit) on sale of fixed assets	**5**	(21)	(360)
Increase in stocks and work in progress	**(3,876)**	(8,844)	(10,044)
Increase in debtors	**(543)**	(15,564)	(28,564)
(Decrease)/increase in creditors	**(2,718)**	13,374	30,382
Exceptional loss	**–**	(684)	(684)
Net cash inflow/(outflow) from operating activities	**4,412**	(4,475)	8,211

6 Reconciliation of net cash flow to movement in net cash

	June 2001 Net cash £'000s	December 2000 Net cash £'000s
At 1 January 2001	**23,474**	22,042
Cash (outflow)/inflow	**(8,033)**	1,432
Cash at bank at 30 June 2001	**15,441**	23,474

7 Interim dividend
The interim dividend of 4p per share (2000: 3.00p) will be paid on 17 September 2001 to shareholders on the register at 24 August 2001. The ex-dividend date will be 22 August 2001.



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Fit Out

The Fit Out Division, comprising Overbury and Morgan Lovell, is the UK's leading office fitting out and refurbishment organisation. Both Brands provide an exceptional level of customer service to developers and occupiers and consistently achieve high levels of repeat business.

Infrastructure Services

The Division operates through the core disciplines of Water, Tunnelling and Civils in both the public and private sector. A pioneer in partnering arrangements, its culture of co-operation has lead to strong client relationships reflected in the quality of its order book.

Investments

The Group proactively invests its reserves in three areas; property developments, a joint venture business in primary healthcare buildings and in support of Morgan Sindall's activity in PFI projects through holdings in individual project companies.

For further information visit our website at:
www.morgansindall.co.uk

MORGAN SINDALL

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