MORGAN SINDALL Interim Report **2002**

The Construction Brands Group

Morgan Sindall plc

Morgan Sindall plc is a top ten United Kingdom construction company that operates a national network of businesses covering fit-out, regional construction, affordable housing and infrastructure services. The Group's Divisions also work together to provide a coordinated approach to integrated construction solutions. The Group's strategy is to establish leading brands within its specialist Divisions.

Fit Out

Overbury is the leading office fit out and refurbishment company and Morgan Lovell provides complete workplace interior solutions. Vivid Interiors is a newly formed company, which extends the Division's activities to include fit out and refurbishment services to the retail, leisure and entertainment sectors.

Regional Construction

Bluestone has established itself as a leading regional construction company and provides construction services through a national network of 27 local offices across England and Wales. Bluestone has a significant track record in the Education, Health, Commercial, Industrial, Leisure and Non-food retail sectors.

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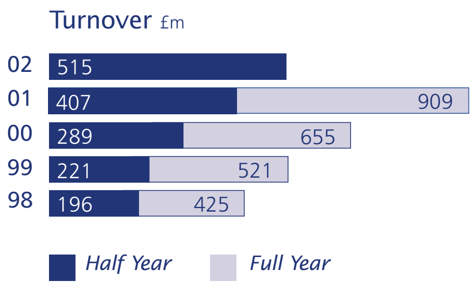
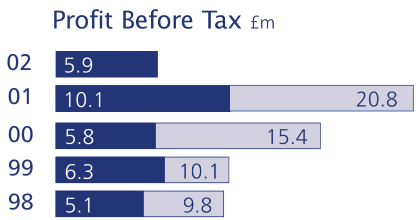
	Six months to June 2002 £'000s	Six months to June 2001 £'000s	Year to December 2001 £'000s
Turnover	**514,714**	407,256	909,168
Profit before taxation	**5,865**	10,095	20,770
Earnings per ordinary share	**9.48p**	19.45p	36.03p
Dividend per ordinary share	**4.25p**	4.00p	14.00p
Net assets	**65,985**	60,299	63,743
Cash at bank	**3,235**	15,441	34,639





The results for the half years ended 30 June 2002 and 2001 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 2001 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

Overall economic forecasts for the UK construction industry are optimistic and this is mirrored in the Group's trading levels and order book. Turnover for the six months ended 30 June 2002 was £515m (30 June 2001: £407m) and the order book stands at a record £1.5bn (30 June 2001: £861m) which also reflects the change in profile of the Group over the last year resulting from strategic acquisitions. Group profits have been affected by the disappointing performance of the Regional Construction Division as announced in April; the forecast impact of the losses of £4.0m for that Division has been taken in the first half. As a result profit before tax was £5.9m (30 June 2001: £10.1m).

Nevertheless prospects for the Group are increasingly encouraging. Both the Affordable Housing and Infrastructure Services Divisions, strengthened by recent acquisitions, are progressing well in market places buoyed by increased public expenditure programmes. Our Fit Out Division continues to prosper whilst broadening its range of activities and Regional Construction will increasingly benefit from the changes implemented earlier this year. With the focus for the Group on organic growth we anticipate a return to positive cash flow during the year even after further investment in Affordable Housing. Net cash at 30 June 2002 was £3.2m which compares to £15.4m at the same time last year reflecting the £15.0m spent on acquisitions during the previous twelve months. The Board has decided to increase the interim dividend to 4.25p (30 June 2001: 4.00p).

Divisional Reviews

Fit Out

Fit Out achieved another record performance with an operating profit of £6.2m from £115m turnover (2001: £5.7m on £113m) and enters the second half of the year with a strong order book and a healthy prospect list. A new brand has been launched, Vivid Interiors, to focus on specialised retailing, entertainment and leisure fit out opportunities. Whilst this will have little financial impact this year, it is evidence of the ability to exploit the Division's skill base into new niche areas.

Although trading in the fit out market as a whole, has been mixed, the first half's result from our Fit Out Division clearly shows the continued strength of our Brands and client reaction to business improvement initiatives such as Perfect Delivery that separates the Division from its competition.

Regional Construction

The restructuring programme, which commenced in January when the six regional contracting companies were merged into Bluestone, is now well advanced. As announced in our April Trading Update this major structural change has resulted in the Division forecasting a loss of £4.0m for the year and our view remains unchanged. We are now seeing an improvement in the volume and quality of enquiries which we believe demonstrates that Bluestone is being favourably received by clients but the extent and speed with which good new business is being secured is still to be proven. Turnover for the Division for the six months was £167m (2001: £193m) with a loss of £4.0m (2001: £2.4m profit).

The new management structure is now in place, marketing plans are progressively being implemented as are new risk management procedures. The business is now better placed to respond to it's broader based customers' requirements and the greater focus on selective market segments, where Bluestone has recognised skills, will provide the base to enhance the Division's operating performance. Whilst volumes are expected to reduce in the short term, I believe that the Division will return to profitability in 2003.

Affordable Housing

Lovell has made a solid start to the year with turnover up to £102m (2001: £66m) and operating profit of £2.6m (2001: £1.9m).

Costs of PFI tenders and completion of lower margin work from the Carillion Housing acquisition mask the improving margins in the business. With larger, more complex mixed tenure schemes both starting on site and in the pipeline, Lovell are expecting continued growth. This improvement is reflected in the order book which has grown to £490m from £255m at the beginning of the year and gives us continued confidence in the performance of this Division for the second half of 2002 and beyond.

Whilst Lovell is pursuing three of the pathfinder PFI schemes and is working on major long term refurbishment programmes in partnership with Whitefriars, Sunderland and Pennine 2000 as part of stock transfer schemes, the majority of present opportunities continue to be in mixed tenure regeneration cross subsidy schemes. For example, the Metropolitan West Hendon Consortium, of which Lovell is a member, has been selected for the West Hendon Regeneration Project in partnership with the London Borough of Barnet. This includes the provision of 680 affordable homes, transportation upgrades including a new gyratory system, community and environmental improvements funded by cross-subsidies from open market housing, retail and leisure facilities. However schemes are funded there is evidence of increasing activity and Lovell is well placed to benefit.

Infrastructure Services

Morgan Est has moved quickly to integrate Pipeline Constructors Group, acquired in January, into its business. Already clients are reacting favourably to Morgan Est's broader offering and their ability to offer an integrated construction and utility capability. Turnover and operating profit for the half year were satisfactory at £126m and £2.5m respectively. The nature and timing of certain contracts are forecast to produce a stronger second half performance.

The order book for the Division stands at a record £730m and with further major expenditure imminent in the Water Sector, where Morgan Est is a market leader, the Division is gearing up for further growth. Management focus will however remain on improving margins. Whilst much of the work is undertaken by cost reimbursable and target cost forms of contract which reduce risk, additional margins can be secured by achieving best value which is the key to client satisfaction and the Division's long term success.

Accounting Policies

The Group has reviewed UITF 34, the new accounting abstract for pre-contract costs, and confirms that implementation will not materially affect Group results for this or prior years as generally such costs have been expensed.

Outlook

Looking forward, the Group has never been so well placed. The four Divisions address different market segments and customers whilst supporting each other for integrated complex schemes. Each of the businesses has organic growth potential and in particular the Affordable Housing and Infrastructure Services Divisions appear to be ideally positioned in the present climate. Whilst cash surpluses have been used to make strategic acquisitions and the nature of the larger contracts now undertaken particularly by Morgan Est make cash flow more variable, overall the Group continues to have a cash generative profile. I remain convinced that Morgan Sindall will continue to prosper.

John Morgan
Executive Chairman
20 August 2002

MORGAN SINDALL

Group Profit and Loss Account (Unaudited)
for the six months to 30 June 2002

	Unaudited Six months to June 2002 £'000s	Unaudited Six months to June 2001 £'000s	Audited Year to December 2001 £'000s
Turnover			
Continuing operations	**468,813**	407,928	910,766
Acquisitions	**46,840**	–	–
Less share of joint venture turnover	**(939)**	(672)	(1,598)
Group turnover	**514,714**	407,256	909,168
Cost of sales	**(472,948)**	(365,842)	(820,004)
Gross profit	**41,766**	41,414	89,164
Administrative expenses	**(36,296)**	(32,172)	(70,709)
Other operating income	**363**	496	1,133
Operating profit			
Continuing operations	**4,235**	9,738	19,588
Acquisitions	**1,598**	–	–
Total operating profit	**5,833**	9,738	19,588
Share of profits/(losses) of joint venture	**164**	(255)	17
Net interest (payable)/receivable	**(132)**	612	1,165
Profit on ordinary activities before taxation	**5,865**	10,095	20,770
Tax charge on ordinary activities	**(1,967)**	(2,625)	(6,536)
Profit on ordinary activities after taxation	**3,898**	7,470	14,234
Dividends on equity and non-equity shares	**(1,761)**	(1,644)	(5,824)
Retained profit for the period	**2,137**	5,826	8,410
Earnings per ordinary share	**9.48p**	19.45p	36.03p
Diluted earnings per ordinary share	**9.27p**	18.47p	34.87p

Group Balance Sheet (Unaudited)
as at 30 June 2002

	Unaudited June 2002 £'000s	Unaudited June 2001 £'000s	Audited December 2001 £'000s
Fixed assets			
Intangible assets	**54,601**	29,615	40,009
Tangible assets	**19,986**	19,850	19,887
Share of joint venture gross assets	**22,861**	19,209	22,151
Share of joint venture gross liabilities	**(21,097)**	(18,375)	(20,551)
Investment in joint venture	**1,764**	834	1,600
Investments	**1,334**	1,293	1,366
	77,685	51,592	62,862
Current assets			
Stocks	**47,515**	39,970	36,028
Debtors	**192,321**	147,747	155,261
Cash at bank and in hand	**3,235**	15,441	34,639
	243,071	203,158	225,928
Creditors: amounts falling due within one year	**(254,172)**	(193,722)	(224,418)
Net current (liabilities)/assets	**(11,101)**	9,436	1,510
Total assets less current liabilities	**66,584**	61,028	64,372
Creditors: amounts falling due after more than one year	**(599)**	(729)	(629)
Net assets	**65,985**	60,299	63,743
Capital and reserves			
Called up share capital	**4,997**	5,794	4,993
Share premium account	**22,997**	21,729	22,896
Revaluation reserve	**4,627**	4,259	4,627
Profit and loss account	**33,364**	28,517	31,227
Total shareholders' funds	**65,985**	60,299	63,743
Shareholders' funds are attributable to:			
Equity shareholders' funds	**63,021**	56,506	60,779
Non-equity shareholders' funds	**2,964**	3,793	2,964
	65,985	60,299	63,743

MORGAN SINDALL

Group Cash Flow Statement (Unaudited)
for the six months to 30 June 2002

	Unaudited Six months to June 2002 £'000s	Unaudited Six months to June 2001 £'000s	Audited Year to December 2001 £'000s
Net cash (outflow)/inflow from operating activities	**(12,273)**	4,412	36,159
Returns on investments and servicing of finance			
Interest received	**445**	812	1,434
Interest paid	**(569)**	(549)	(727)
Dividends paid to preference shareholders	**(83)**	(107)	(190)
Interest paid on finance leases	**(33)**	(6)	(62)
	(240)	150	455
Taxation			
Corporation tax paid	**(3,322)**	(1,820)	(6,079)
Capital expenditure and financial investment			
Payments to acquire fixed assets	**(1,880)**	(1,223)	(3,330)
Receipts from sale of fixed assets	**186**	163	551
Payments to acquire fixed asset investments	**(32)**	(194)	(311)
	(1,726)	(1,254)	(3,090)
Acquisitions and disposals			
Purchase of subsidiary undertaking	**(10,109)**	(20,162)	(25,658)
Net cash acquired	**506**	4,720	4,720
	(9,603)	(15,442)	(20,938)
Equity dividends paid	**(4,067)**	(2,852)	(4,368)
Net cash (outflow)/inflow before financing	**(31,231)**	(16,806)	2,139
Financing			
Issue of share capital, net of expenses	**105**	8,773	9,139
Capital element of finance leases	**(278)**	–	(113)
Net cash (outflow)/inflow from financing activities	**(173)**	8,773	9,026
(Decrease)/increase in cash	**(31,404)**	(8,033)	11,165

Statement of Movements in Shareholders' Funds (Unaudited)
for the six months to 30 June 2002

	Unaudited Six months to June 2002 £'000s	Unaudited Six months to June 2001 £'000s	Audited Year to December 2001 £'000s
Opening shareholders' funds	**63,743**	45,700	45,700
Retained profit for the period	**2,137**	5,826	8,410
Options exercised	**105**	408	774
New shares issued	**–**	8,365	8,365
Surplus on revaluation	**–**	–	494
Closing shareholders' funds	**65,985**	60,299	63,743

Notes to the Interim Report

1 Analysis of turnover and operating profit

	Unaudited six months to June 2002		Unaudited six months to June 2001	
	Turnover £'000s	Profits/ (losses) £'000s	Turnover £'000s	Profits/ (losses) £'000s
Fit out	**114,687**	**6,200**	113,334	5,662
Regional construction	**167,138**	**(3,965)**	193,107	2,371
Affordable housing	**102,012**	**2,585**	66,167	1,899
Infrastructure services	**126,125**	**2,509**	23,641	559
Group activities	**4,752**	**(1,496)**	11,007	(753)
	514,714	**5,833**	407,256	9,738

2 Acquisition of Pipeline Constructors Group

On 2 January 2002 the Company acquired the entire issued share capital of Pipeline Constructors Group. Consideration of £17.1m was satisfied by £9.9m of cash and £7.2m of loan notes and there were costs of approximately £0.2m which have been capitalised. Tangible net assets acquired were £2.5m and in addition provisional fair value adjustments have been made recognising liabilities totalling £1.3m. The resultant value of goodwill capitalised of £16.1m is provisional and will be subject to any subsequent adjustments required to fair value of the net assets acquired.

Notes to the Interim Report
(continued)

3 Earnings per share

The calculation of the earnings per ordinary share is based on the weighted average number of 40,254,000 ordinary shares in issue during the period and on the profit for the period attributable to ordinary shareholders of £3,815,000. In calculating the diluted earnings per ordinary share, earnings are adjusted for the preference dividend of £83,000 giving adjusted earnings of £3,898,000. The weighted average number of ordinary shares is adjusted for the dilutive effect of the convertible preference shares by 1,185,000, share options by 600,000 and contingent awards under the Long Term Incentive Plan of nil giving an adjusted number of ordinary shares of 42,039,000.

4 Taxation

Taxation on current period profits is charged at 31% being the estimated effective rate of taxation for the year.

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

	Unaudited Six months to June 2002 £'000s	Unaudited Six months to June 2001 £'000s	Audited Year to December 2001 £'000s
Operating profit	**5,833**	9,738	19,588
Depreciation of tangible fixed assets	**2,096**	1,334	3,119
Amortisation of goodwill	**1,470**	472	1,478
(Profit)/loss on sale of fixed assets	**(43)**	5	(80)
(Increase)/decrease in stocks and work in progress	**(9,648)**	(3,876)	231
Increase in debtors	**(21,434)**	(543)	(4,825)
Increase/(decrease) in creditors	**9,453**	(2,718)	16,648
Net cash (outflow)/inflow from operating activities	**(12,273)**	4,412	36,159

6 Reconciliation of net cash flow to movement in net funds

	Unaudited Six months to June 2002 £'000s	Audited Year to December 2001 £'000s
(Decrease)/increase in cash	**(31,404)**	11,165
Cash outflow from decrease in finance leases	**278**	113
Change in net funds resulting from cash flows	**(31,126)**	11,278
Loan notes issued on acquisition (note 2)	**(7,161)**	–
Finance leases acquired with subsidiary undertaking	**(407)**	(967)
Change in net funds	**(38,694)**	10,311
Net funds at start of period	**33,785**	23,474
Net (debt)/funds at end of period	**(4,909)**	33,785

7 Interim dividend

The interim dividend of 4.25p per share (2001: 4.00p) will be paid on 20 September 2002 to shareholders on the register at 30 August 2002. The ex-dividend date will be 28 August 2002.

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Affordable Housing

Lovell is the UK's leading provider of affordable housing specialising in mixed tenure developments. From seven regional offices in Scotland, England and Wales, the Company works in partnership with Registered Social Landlords and Local Authorities at the cutting edge of urban regeneration to create sustainable communities. Lovell offers flexible solutions including open market homes, design and build, refurbishments, PFI schemes and large scale voluntary transfer projects. Lovell has also pioneered its own innovative form of low cost home ownership, the Lovell Resale Covenant.

Infrastructure Services

Morgan Est operates through four businesses: Morgan Civil Engineering, Morgan Tunnelling, Morgan Water and Morgan Utilities. These businesses span the range of civil engineering activities using procurement routes such as Partnering; Negotiated; Design and Construct; PFI/PPP; Design, Build, Finance and Operate; and Traditional Construction. Morgan Est's culture of open collaboration has led to long-term client and supplier relationships.

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