INTERIM REPORT 2003

MORGAN SINDALL

THE CONSTRUCTION BRANDS GROUP

MORGAN SINDALL PLC IS A TOP TEN UNITED KINGDOM CONSTRUCTION COMPANY THAT OPERATES A NATIONAL NETWORK OF BUSINESSES COVERING CONSTRUCTION, FIT OUT, INFRASTRUCTURE SERVICES AND AFFORDABLE HOUSING. THE GROUP'S DIVISIONS ALSO WORK TOGETHER TO PROVIDE INTEGRATED CONSTRUCTION SOLUTIONS. THE GROUP'S STRATEGY IS TO DEVELOP LEADING BRANDS WITHIN SPECIALIST DIVISIONS.

CONSTRUCTION

Through a network of local offices across England and Wales, Bluestone provides consistent, high quality construction solutions to private and public sector clients. Operating under a variety of procurement routes, the company's sector expertise is in education, healthcare, industrial, commercial, retail and residential construction where it undertakes new build, refurbishment and maintenance projects.

FIT OUT

Overbury is the leading office fit out and refurbishment company and Morgan Lovell provides complete workplace interior design and refurbishment solutions. Vivid Interiors extends the division's activities to include fit out and refurbishment services to the retail, leisure and entertainment sectors. Backbone Furniture offers advice, installation and support for commercial interiors furniture.

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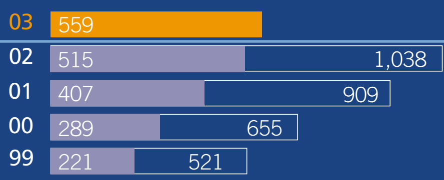
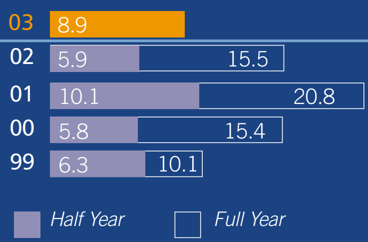
FINANCIAL

	Six months to June 2003 £'000s	Six months to June 2002 £'000s	Year to December 2002 £'000s
TURNOVER	**559,121**	514,714	1,038,387
PROFIT BEFORE AMORTISATION	**10,380**	7,335	18,646
PROFIT BEFORE TAXATION	**8,875**	5,865	15,530
EARNINGS PER ORDINARY SHARE	**14.44p**	9.48p	25.32p
DIVIDENDS PER ORDINARY SHARE	**4.75p**	4.25p	15.00p
NET ASSETS	**74,372**	65,985	70,280

TURNOVER £M



PROFIT BEFORE TAX £M



The results for the half years ended 30 June 2003 and 2002 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 2002 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

The Group has started the year well, current trading is satisfactory and work opportunities are at reasonable levels. Turnover for the six months ended 30 June 2003 was £559m and profit before tax and goodwill amortisation was £10.4m (2002: £515m and £7.3m respectively). Earnings per share for the period increased to 14.44p (2002: 9.48p).

The overall growth in Group turnover compared to last year reflects how the Group's exposure to public sector work has outweighed the slow down in the private sector. The substantial increase in profits is attributable to the return to profit of our Construction division which recorded losses last year as it was restructured. With both Infrastructure Services and Affordable Housing looking to produce stronger second half performances as a result of contract starts and phasing, the Group is on line to achieve its full year objectives.

At 30 June 2003 the Group had net borrowings of £17.8m (2002: net cash £3.2m) partly due to the final payment under the Pipeline Constructors Group acquisition and partly to the planned increase in investment in Affordable Housing. With increased opportunity in this division it was anticipated that the Group's cash profile would continue to require a greater level of external borrowings than in previous years. Consequently the Group has arranged additional term banking facilities which cover the Group's projected requirements for the medium term.

In light of the good start to the year the Board has decided to increase the interim dividend to 4.75p (2002: 4.25p).

DIVISIONAL REVIEWS

Construction

Turnover for the division for the six months reduced again to £153m (2002: £167m) in line with our stated policy of ensuring the division focuses on specific market segments where the division has recognised skills. Evidence that this planned approach is succeeding came with Bluestone's appointment as preferred partner in two of the 25 year NHS Local Improvement Finance Trust (NHS LIFT) initiatives and its short listing on a further six. Whilst the full benefits of the restructuring programme will take time to further improve the bottom line, the division did achieve a modest operating profit in the first half of £179,000 (2002: operating loss of £4.0m).

Fit Out

In a difficult market with continuing weak occupational property demand Fit Out results are highly satisfactory. Turnover of £101m was less than the £115m in the comparable period last year but was significantly better than the £78m turnover in the second half of 2002. Operating profit of £4.8m (2002: £6.2m) reflects a margin of 4.7%, which not only reflects the strength of the brand but also the swiftness of management action in rebalancing overhead when volumes reduce.

Infrastructure Services

Morgan Est produced good results for the first half with record turnover of £177m and operating profit of £3.4m (2002: £126m and £2.5m respectively). Across the range of its activities the division has been busy, the tunnelling business particularly at Terminal 5 Heathrow, the civil's business on both the Channel Tunnel Rail Link and the Newport Relief Road. Similarly both the water and utilities businesses have been expanding as clients continue to outsource work in larger packages to contractors who can deliver a wider range of expertise.

Affordable Housing

Affordable Housing is operating in the most rapidly growing of our market segments as a result of increased governmental commitment to improving housing stock, and Lovell's order book has increased from £565m to a record £735m. Turnover for the six months was £118m (2002: £102m) and operating profit was £2.7m (2002: £2.6m), however the timing and phasing of contracts will result in a much stronger performance in the second half. Whilst increased levels of activity require additional funding the mixed tenure projects enable us to keep this investment to acceptable levels.

BOARD

Paul Smith joined the Group in March 2003 as Chief Executive. He has a successful management track record and strengthens the head office team. Paul and I bring complementary skills to the Group and together we will provide strategic and operational leadership to develop the Group further.

OUTLOOK

The Group is clearly well represented in four distinct construction areas, providing us with a balanced mix of businesses and market exposures. Within these growing markets we have strong leadership positions, enabling us to create and exploit potential opportunities, even during less than certain trading conditions.

Approximately 60% of our work comes from the expanding public sector in mostly high priority areas and we believe that this offers significant opportunities.

With a strong Group order book of £1.4bn, we are confident of achieving an improved second half and remain committed to expanding the business as we go forward.

John Morgan
Executive Chairman

11 August 2003

GROUP PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE SIX MONTHS TO 30 JUNE 2003

	Unaudited Six months to June 2003 £'000s	Unaudited Six months to June 2002 £'000s	Audited Year to December 2002 £'000s
Turnover			
Continuing operations	**560,055**	515,653	1,040,646
Less share of joint venture turnover	**(934)**	(939)	(2,259)
Group turnover	**559,121**	514,714	1,038,387
Cost of sales	**(510,911)**	(472,948)	(942,782)
Gross profit	**48,210**	41,766	95,605
Administrative expenses	**(39,448)**	(36,296)	(80,672)
Other operating income	**376**	363	758
Operating profit from continuing operations	**9,138**	5,833	15,691
Share of profits of joint venture	**138**	164	603
Net interest payable	**(401)**	(132)	(764)
Profit on ordinary activities before taxation	**8,875**	5,865	15,530
Tax charge on ordinary activities	**(2,929)**	(1,967)	(5,138)
Profit on ordinary activities after taxation	**5,946**	3,898	10,392
Dividends on equity and non-equity shares	**(2,006)**	(1,761)	(6,254)
Retained profit for the period	**3,940**	2,137	4,138
Earnings per ordinary share	**14.44p**	9.48p	25.32p
Diluted earnings per ordinary share	**14.26p**	9.27p	25.00p

GROUP BALANCE SHEET (UNAUDITED)
AS AT 30 JUNE 2003

	Unaudited June 2003 £'000s	Unaudited June 2002 £'000s	Audited December 2002 £'000s
Fixed assets			
Intangible assets	**52,890**	54,601	54,395
Tangible assets	**13,087**	19,986	21,308
Share of joint venture gross assets	**37,750**	22,861	31,771
Share of joint venture gross liabilities	**(33,483)**	(21,097)	(27,287)
Investment in joint ventures	**4,267**	1,764	4,484
Investments	**1,337**	1,334	1,337
	71,581	77,685	81,524
Current assets			
Stocks	**68,587**	47,515	49,644
Debtors	**212,112**	192,321	176,491
Cash at bank and in hand	**–**	3,235	6,849
	280,699	243,071	232,984
Creditors: amounts falling due within one year	**(277,167)**	(254,172)	(243,657)
Net current assets/(liabilities)	**3,532**	(11,101)	(10,673)
Total assets less current liabilities	**75,113**	66,584	70,851
Creditors: amounts falling due after more than one year	**(741)**	(599)	(571)
Net assets	**74,372**	65,985	70,280
Capital and reserves			
Called up share capital	**2,709**	4,997	3,646
Share premium account	**25,464**	22,997	24,375
Revaluation reserve	**3,994**	4,627	6,941
Profit and loss account	**42,205**	33,364	35,318
Total shareholders' funds	**74,372**	65,985	70,280
Shareholders' funds are attributable to:			
Equity shareholders' funds	**73,749**	63,021	68,696
Non-equity shareholders' funds	**623**	2,964	1,584
	74,372	65,985	70,280

GROUP CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS TO 30 JUNE 2003

	Unaudited Six months to June 2003 £'000s	Unaudited Six months to June 2002 £'000s	Audited Year to December 2002 £'000s
Net cash (outflow)/inflow from operating activities	**(11,065)**	(12,273)	630
Dividend received from joint venture	**355**	–	–
Returns on investments and servicing of finance			
Interest received	**1,287**	445	821
Interest paid	**(1,668)**	(569)	(1,557)
Dividends paid to preference shareholders	**(45)**	(83)	(128)
Interest paid on finance leases	**(33)**	(33)	(56)
	(459)	(240)	(920)
Taxation			
Corporation tax paid	**(2,384)**	(3,322)	(6,349)
Capital expenditure and financial investment			
Payments to acquire fixed assets	**(1,544)**	(1,880)	(5,282)
Receipts from sale of fixed assets	**1,411**	186	416
Payments to acquire fixed asset investments	**–**	(32)	(103)
	(133)	(1,726)	(4,969)
Acquisitions and disposals			
Purchase of subsidiary undertaking	**(6,802)**	(10,109)	(10,606)
Net cash acquired	**–**	506	506
	(6,802)	(9,603)	(10,100)
Equity dividends paid	**(4,479)**	(4,067)	(5,755)
Net cash outflow before financing	**(24,967)**	(31,231)	(27,463)
Financing			
Issue of share capital, net of expenses	**152**	105	132
New finance leases/(capital element of finance leases)	**183**	(278)	(459)
Net cash inflow/(outflow) from financing activities	**335**	(173)	(327)
Decrease in cash	**(24,632)**	(31,404)	(27,790)

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED)
FOR THE SIX MONTHS TO 30 JUNE 2003

	Unaudited Six months to June 2003 £'000s	Unaudited Six months to June 2002 £'000s	Audited Year to December 2002 £'000s
Opening shareholders' funds	**70,280**	63,743	63,743
Retained profit for the period	**3,940**	2,137	4,138
Options exercised	**152**	105	132
Unrealised loss on deemed disposal of joint venture interest	**–**	–	(47)
Share of joint venture revaluation surplus	**–**	–	2,314
Closing shareholders' funds	**74,372**	65,985	70,280

NOTES TO THE INTERIM REPORT

1 Analysis of turnover and operating profit

	Unaudited six months to June 2003		Unaudited six months to June 2002	
	Turnover £'000s	**Profits/ (losses) £'000s**	Turnover £'000s	Profits/ (losses) £'000s
Construction	**152,632**	**179**	167,138	(3,965)
Fit out	**101,146**	**4,783**	114,687	6,200
Infrastructure services	**177,352**	**3,437**	126,125	2,509
Affordable housing	**117,991**	**2,672**	102,012	2,585
Group activities	**10,000**	**(1,933)**	4,752	(1,496)
	559,121	**9,138**	514,714	5,833

2 Taxation

Taxation on current period profits is charged at 33% being the estimated effective rate of taxation for the year.

3 Earnings per share

The calculation of the earnings per ordinary share is based on the weighted average number of 40,865,000 ordinary shares in issue during the period and on the profit for the period attributable to ordinary shareholders of £5,901,000. In calculating the diluted earnings per ordinary share, earnings are adjusted for the preference dividend of £45,000 giving adjusted earnings of £5,946,000. The weighted average number of ordinary shares is adjusted by 631,000 for the dilutive effect of the convertible preference shares, by 114,000 for share options and by a further 94,000 for contingent awards under the Long Term Incentive Plan giving an adjusted number of ordinary shares of 41,704,000.

NOTES TO THE INTERIM REPORT (CONTINUED)

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

	Unaudited Six months to June 2003 £'000s	Unaudited Six months to June 2002 £'000s	Audited Year to December 2002 £'000s
Operating profit	**9,138**	5,833	15,691
Depreciation of tangible fixed assets	**1,923**	2,096	4,069
Amortisation of goodwill	**1,505**	1,470	3,116
Profit on sale of fixed assets	**(624)**	(43)	(166)
Increase in stocks and work in progress	**(11,881)**	(9,648)	(11,292)
Increase in debtors	**(35,615)**	(21,434)	(5,480)
Increase/(decrease) in creditors	**24,489**	9,453	(5,308)
Net cash (outflow)/inflow from operating activities	**(11,065)**	(12,273)	630

5 Reconciliation of net cash flow to movement in net debt

	Unaudited Six months to June 2003 £'000s	Audited Year to December 2002 £'000s
Decrease in cash	**(24,632)**	(27,790)
Cash flow from (increase)/decrease in finance leases	**(183)**	459
Change in net funds resulting from cash flows	**(24,815)**	(27,331)
Finance leases acquired with subsidiary undertaking	**–**	(407)
Loan notes redeemed/(issued on acquisition)	**6,802**	(7,161)
Change in net funds	**(18,013)**	(34,899)
Net (debt)/funds at start of period	**(1,114)**	33,785
Net debt at end of period	**(19,127)**	(1,114)

6 Interim dividend

The interim dividend of 4.75p per share (2002: 4.25p) will be paid on 10 September 2003 to shareholders on the register at 22 August 2003. The ex-dividend date will be 20 August 2003.

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INFRASTRUCTURE SERVICES

Morgan Est operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering projects in both the public and private sectors. A market leader in partnering arrangements, its culture of 'Early Solutions Together' has led to strong long term client relationships.

AFFORDABLE HOUSING

Lovell is the UK's leading provider of affordable housing specialising in mixed tenure developments and major refurbishment opportunities. It works in partnership with Housing Associations and Local Authorities at the cutting edge of urban regeneration to create sustainable communities. Lovell's competitive advantage is its experience in the delivery of the whole range of affordable housing solutions. This includes open market homes, design and build, refurbishment, PFI schemes and housing stock transfer programmes. Lovell has also pioneered its own innovative form of low cost home ownership, Lovell Choice.

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