morgan sindall interim report 2004

MORGAN SINDALL

the construction brands group

Morgan Sindall plc is a top ten United Kingdom construction company employing over 5,000 people. Leading brands operate within four specialist divisions targeted at specific growth sectors. The inherent strength of the Group is derived from this balance of activity and the ability to provide a coordinated approach to integrated construction solutions.

Fit Out
Overbury is the leading office fit out and refurbishment company and Morgan Lovell provides complete office interior design and refurbishment solutions. Vivid Interiors extends the division's activities to include the retail, leisure and entertainment sectors. Backbone Furniture offers supply, refurbishment and move management of commercial furniture.

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

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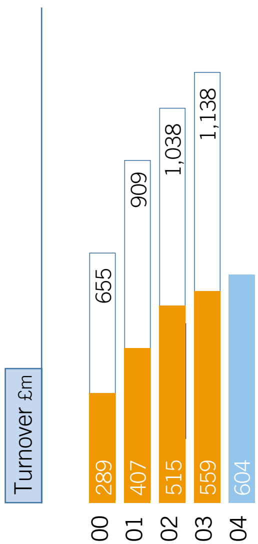
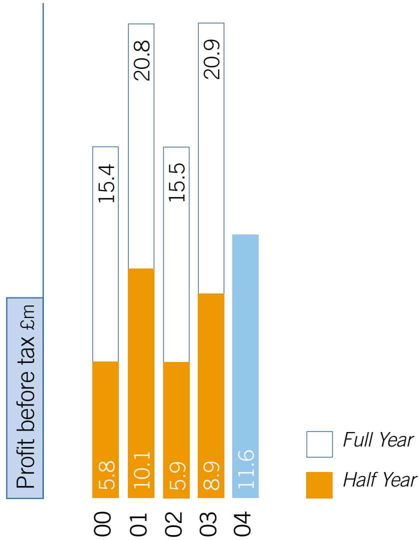
financial highlights

	Six months to June 2004 £'000s	Six months to June 2003 £'000s	Year to December 2003 £'000s
Group turnover	**604,445**	559,121	1,137,537
Profit before tax and goodwill amortisation	**13,196**	10,380	24,111
Profit before tax	**11,645**	8,875	20,920
Earnings per ordinary share	**18.20p**	14.44p	36.04p
Dividends per ordinary share	**5.25p**	4.75p	16.50p
Cash/(overdraft)	**39,044**	(17,783)	14,613
Net assets	**84,471**	73,138	78,878





The results for the half years ended 30 June 2004 and 2003 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 2003 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 and chief executive's statement

We are pleased to announce record interim results with Group turnover for the six months ended 30 June 2004 of £604m and profit before tax and goodwill amortisation of £13.2m (2003: £559m and £10.4m respectively). Earnings per share for the period increased by 26% to 18.20p (2003: 14.44p).

The growth in turnover and profit is largely attributable to the expansion of Affordable Housing and to a strong performance at Fit Out as the commercial office fit out market recovers. With satisfactory performances at Infrastructure Services and Construction the Group is well positioned to achieve its financial aspirations for 2004.

The Group was highly cash generative in the period. Cash balances at 30 June 2004 were £39m with £24m of cash being generated since December 2003 reflecting improvements in working capital across the Group. In particular Fit Out has generated cash as it has expanded while Affordable Housing has seen an increased level of mixed tenure house sales in the first six months of 2004 compared with the previous year.

In light of the encouraging trading in the first half of the year and the Board's confidence in the future it has been decided that an increased interim dividend of 5.25p (2003: 4.75p) be paid to shareholders.

divisional reviews

Fit Out

Fit Out achieved turnover for the period of £121m (2003: £101m) demonstrating improving market conditions and growth in its market share. Operating profit was £5.6m (2003: £4.8m) giving a margin of 4.6% (2003: 4.7%), which the Board believes is consistent with the sustainable, long-term margin for this division. In May Morgan Lovell opened a new office in Birmingham in line with Fit Out's strategy to expand its operations outside the southeast of England. During the first half we began to see a return to the fitting out of new office space as well as orders for contracts extending into 2005. As a result the order book has lengthened and strengthened to £106m from £77m at December 2003 and £49m a year ago. Overall the outlook for Fit Out is positive with demand increasing across a number of sectors including information technology, recruitment and financial services.

Construction

During the first half Construction's margins improved resulting in a profit of £0.6m (2003: £0.2m) as we continued our specific focus on the education, healthcare and light industrial sectors, and on the securing of longer term framework arrangements. Turnover for the six months reduced to £130m (2003: £153m) due to this market focus. In particular in the healthcare sector, NHS LIFT projects are a core part of the future and we have been successful in financially closing two schemes at Barnsley and Camden & Islington for £100m. Overall we have closed or are preferred bidder on 4 of the 42 schemes released to date, which is in line with our original target.

The forward order book increased to £218m from £170m at December 2003. With the increases in capital spending for health and education announced in the Chancellor's spending review in July the outlook for Construction is also encouraging.

Infrastructure Services

Infrastructure Services had a satisfactory first half with turnover of £177m, (2003: £177m) and profit of £2.9m (2003: £3.4m). This year, due to the programme timing of a number of large projects, profits will again be weighted towards the second half. Key infrastructure projects, namely Heathrow Terminal 5, Newport Southern Distributor Road, Channel Tunnel Rail Link 310 and the A92 Dundee to Arbroath road improvements, all continue to progress well. In May the division expanded its rail expertise with the recruitment of AWG's rail team, which builds on the experience gained on the Channel Tunnel Rail Link projects and puts us in a stronger position to pursue the increasing opportunities for renewal work in the rail sector. The forward order book stands at £436m. The division is currently engaged in bidding for a number of opportunities including some large framework contracts under the Asset Management Programme 4 (AMP4), the fourth tranche of the water sector's five year investment cycle.

Affordable Housing

Affordable Housing produced a record profit of £5.7m (2003: £2.7m), more than double that of the same period last year and giving a margin of 3.2% (2003: 2.3%). Turnover increased by 50% to £177m (2003: £118m). Both margin and turnover growth is in part attributable to a greater number of mixed tenure house sales in the first half of the year, with a total of 436 sales versus 230 in the corresponding period of 2003. In addition sales and as a result profits are expected to be more evenly balanced between the first and second halves of 2004 compared to 2003. Lovell's forward order book at June 2004 has increased to £789m from £688m at December 2003. Following the recent announcements by the Chancellor and Deputy Prime Minister of further funds being made available for affordable housing, we believe the outlook for Lovell is very positive since, as national market leader, it is well placed to help clients deliver their Decent Homes and Sustainable Communities programmes.

outlook

With an order book of £1.55bn and with our balance of activities across the four divisions, the Group is well positioned to take advantage of new opportunities in both the public and private sectors particularly as the Government increases its investment in the affordable housing, health, education, road and rail sectors, and as the commercial office sector recovers.

Overall, we are confident of fulfilling our expectations for this year and are pleased with the prospects for 2005 and beyond.

John Morgan
Chairman

Paul Smith
Chief Executive

9 August 2004

group profit and loss account (unaudited)

for the six months to 30 june 2004

	Unaudited Six months to June 2004 £'000s	Unaudited Six months to June 2003 £'000s	Audited Year to December 2003 £'000s
Turnover			
Continuing operations	**605,438**	560,055	1,139,456
Less share of joint venture turnover	**(993)**	(934)	(1,919)
Group turnover	**604,445**	559,121	1,137,537
Cost of sales	**(549,461)**	(510,911)	(1,030,719)
Gross profit	**54,984**	48,210	106,818
Administrative expenses	**(43,626)**	(39,448)	(85,276)
Other operating income	**17**	376	428
Operating profit from continuing operations	**11,375**	9,138	21,970
Share of profits and losses of joint ventures	**110**	138	132
Net interest receivable/(payable)	**160**	(401)	(1,182)
Profit on ordinary activities before taxation	**11,645**	8,875	20,920
Tax charge on ordinary activities	**(4,067)**	(2,929)	(6,006)
Profit on ordinary activities after taxation	**7,578**	5,946	14,914
Dividends on equity and non-equity shares	**(2,188)**	(2,006)	(6,830)
Retained profit for the period	**5,390**	3,940	8,084
Earnings per ordinary share	**18.20p**	14.44p	36.04p
Diluted earnings per ordinary share	**17.46p**	14.26p	35.45p

group balance sheet (unaudited)

at 30 june 2004

	Unaudited June 2004 £'000s	Unaudited June 2003 (restated) £'000s	Audited December 2003 (restated) £'000s
Fixed assets			
Intangible assets	**51,451**	52,890	53,002
Tangible assets	**13,413**	13,087	13,375
Share of joint ventures gross assets	**70,176**	37,750	59,509
Share of joint ventures gross liabilities	**(64,876)**	(33,483)	(53,711)
Investment in joint ventures	**5,300**	4,267	5,798
Other investments	**103**	103	103
	70,267	70,347	72,278
Current assets			
Stocks	**65,020**	68,587	65,411
Debtors	**198,776**	212,112	195,546
Cash at bank and in hand	**39,044**	–	14,613
	302,840	280,699	275,570
Creditors: amounts falling due within one year	**(287,242)**	(277,167)	(267,401)
Net current assets	**15,598**	3,532	8,169
Total assets less current liabilities	**85,865**	73,879	80,447
Creditors: amounts falling due after more than one year	**(1,394)**	(741)	(1,569)
Net assets	**84,471**	73,138	78,878
Capital and reserves			
Called up share capital	**2,105**	2,709	2,100
Share premium account	**25,590**	25,464	25,392
Capital redemption reserve	**623**	–	623
Investment in own shares	**(1,094)**	(1,234)	(1,094)
Revaluation reserve	**5,507**	3,994	5,507
Profit and loss account	**51,740**	42,205	46,350
Total shareholders' funds	**84,471**	73,138	78,878
Shareholders' funds are attributable to:			
Equity shareholders' funds	**84,471**	72,515	78,878
Non-equity shareholders' funds	**–**	623	–
	84,471	73,138	78,878

The Group Balance Sheets at 31 December 2003 and 30 June 2003 have been restated following implementation of accounting abstracts UITF 37 (Purchase and Sale of Own Shares) and UITF 38 (Accounting for ESOP Trusts), which requires the Group's investment in own shares to be deducted from shareholders' funds.

group cash flow statement (unaudited)

for the six months to 30 june 2004

	Unaudited Six months to June 2004 £'000s	Unaudited Six months to June 2003 £'000s	Audited Year to December 2003 £'000s
Net cash inflow/(outflow) from operating activities	**32,018**	(11,066)	22,832
Dividend received from joint venture	**336**	355	355
Returns on investments and servicing of finance			
Interest received	**1,246**	1,287	2,021
Interest paid	**(1,036)**	(1,668)	(3,127)
Dividends paid to preference shareholders	**–**	(45)	(62)
Interest paid on finance leases	**(50)**	(33)	(80)
	160	(459)	(1,248)
Taxation			
Corporation tax paid	**(1,577)**	(2,384)	(6,946)
Capital expenditure and financial investment			
Payments to acquire fixed assets	**(1,831)**	(1,544)	(3,034)
Receipts from sale of fixed assets	**188**	1,411	9,205
	(1,643)	(133)	6,171
Acquisitions and disposals			
Purchase of subsidiary undertaking	**–**	(6,801)	(6,801)
Equity dividends paid	**(4,889)**	(4,479)	(6,357)
Net cash inflow/(outflow) before financing	**24,405**	(24,967)	8,006
Financing			
Issue of share capital, net of expenses	**203**	152	717
Redemption of preference shares	**–**	–	(623)
(Capital element of finance leases)/ new finance leases	**(177)**	183	(336)
Net cash inflow/(outflow) from financing activities	**26**	335	(242)
Net cash inflow/(outflow)	**24,431**	(24,632)	7,764

Management of liquid resources	**(3,399)**	4,900	421
Increase/(decrease) in cash	**27,830**	(29,532)	7,343
	24,431	(24,632)	7,764

statement of movements in shareholders' funds (unaudited)

for the six months to 30 june 2004

	Unaudited Six months to June 2004 £'000s	Unaudited Six months to June 2003 (restated) £'000s	Audited Year to December 2003 (restated) £'000s
Opening shareholders' funds (as previously stated)	**79,972**	70,280	70,280
Own shares reclassified	**(1,094)**	(1,234)	(1,234)
Opening shareholders' funds (as restated)	**78,878**	69,046	69,046
Retained profit for the period	**5,390**	3,940	8,084
Options exercised	**203**	152	717
LTIP shares vested	**–**	–	140
Redeemed preference shares	**–**	–	(623)
Share of joint venture revaluation surplus	**–**	–	1,514
Closing shareholders' funds	**84,471**	73,138	78,878

The Statements of Movement in Shareholders' Funds at 31 December 2003 and 30 June 2003 have been restated following implementation of accounting abstracts UITF 37 (Purchases and Sales of Own Shares) and UITF 38 (Accounting for ESOP Trusts), which requires the Group's investment in own shares to be deducted from shareholders' funds.

1 Analysis of turnover and operating profit

	Unaudited six months to June 2004		Unaudited six months to June 2003	
	Turnover £'000s	**Profits/ (losses) £'000s**	Turnover £'000s	Profits/ (losses) £'000s
Fit Out	**120,923**	**5,583**	101,146	4,783
Construction	**129,688**	**597**	152,632	179
Infrastructure Services	**176,506**	**2,910**	177,352	3,437
Affordable Housing	**177,328**	**5,674**	117,991	2,672
Group activities	**–**	**(3,389)**	10,000	(1,933)
	604,445	**11,375**	559,121	9,138

2 Taxation

Taxation on current period profits is charged at 32% 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 41,643,000 ordinary shares in issue during the period and on the profit for the period attributable to ordinary shareholders of £7,578,000.

In calculating the diluted earnings per share, the weighted average number of ordinary shares is adjusted for the dilutive effect of share options by 1,569,000 and by a further 202,000 for contingent awards under the Long Term Incentive Plan giving an adjusted number of ordinary shares of 43,414,000.

notes to the interim report

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

	Unaudited Six months to June 2004 £'000s	Unaudited Six months to June 2003 £'000s	Audited Year to December 2003 £'000s
Operating profit	**11,375**	9,138	21,970
Depreciation of tangible fixed assets	**1,642**	1,923	4,292
Amortisation of goodwill	**1,551**	1,505	3,191
Profit on sale of fixed assets	**(37)**	(624)	(1,056)
Decrease/(increase) in stocks and work in progress	**391**	(11,881)	(15,767)
Increase in debtors	**(3,247)**	(35,615)	(18,367)
Increase in creditors	**20,343**	24,488	28,569
Net cash inflow/(outflow) from operating activities	**32,018**	(11,066)	22,832

5 Reconciliation of net cash flow to movement in net funds

	Unaudited Six months to June 2004 £'000s	Unaudited Six months to June 2003 £'000s	Audited Year to December 2003 £'000s
Increase/(decrease) in cash	**24,431**	(24,632)	7,764
Cash flow from decrease/(increase) in finance leases	**177**	(182)	336
Change in net funds resulting from cash flows	**24,608**	(24,814)	8,100
Loan notes redeemed	**–**	6,801	6,801
Non cash movement	**–**	–	(1,474)
Change in net funds	**24,608**	(18,013)	13,427
Net funds/(debt) at start of period	**12,313**	(1,114)	(1,114)
Net funds/(debt) at end of period	**36,921**	(19,127)	12,313

6 Interim dividend

The interim dividend of 5.25p per share (2003: 4.75p) will be paid on 10 September 2004 to shareholders on the register at 20 August 2004. The ex-dividend date will be 18 August 2004.

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Infrastructure Services
Morgan Est specialises in complex engineering projects, in partnership with Clients who demand the highest possible standards of expertise, commitment & delivery. Operating in both the public and private sectors, its culture of **E**arly **S**olutions **T**ogether underpins its innovative approach and provides a focus for its operations across four core disciplines of water, utilities, tunneling and civil engineering.

Affordable Housing
Lovell is the country's leading provider of affordable housing, specialising in mixed tenure, open market and major refurbishment opportunities. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities.

MORGAN SINDALL

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