MORGAN SINDALL

interim report

# 2006

MORGAN SINDALL

Morgan Sindall plc is a top ten United Kingdom construction group employing over 5,000 people. Our businesses operate within four specialised divisions; Fit Out, Construction, Infrastructure Services and Affordable Housing. The strength of the Group is derived from this balance of activity and the ability to provide integrated solutions across these four areas.

## Fit Out

Fit Out operates through four businesses. Overbury is the leading office fit out and refurbishment specialist and Morgan Lovell provides a complete office transformation service. Vivid Interiors refurbishes and fits out hotel, retail, leisure and entertainment facilities. Backbone Furniture supplies, refurbishes and installs commercial office furniture.

## Construction

Bluestone is a national construction business operating through a network of local offices. The business' core expertise is in building for education, healthcare, industrial and commercial organisations where it undertakes new build, refurbishment, smaller scale works and maintenance projects under a variety of procurement routes.

## Infrastructure Services

Morgan Est is a national business undertaking a broad spectrum of infrastructure and utility projects. It provides civil engineering, utility, tunnelling and mechanical electrical services through all phases of a project from design to operation and maintenance.

## Affordable Housing

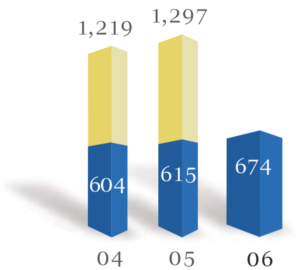
Lovell is the country's leading provider of affordable housing, specialising in mixed tenure and major refurbishment opportunities. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities.

# Contents

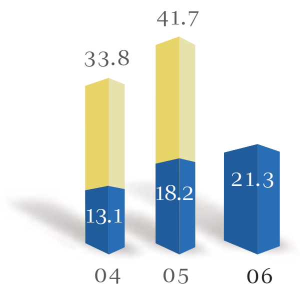
# Financial highlights

| | Six months to 30 June 2006 £m | Six months to 30 June 2005 £m | % increase |
|---|---|---|---|
| Revenue | 674 | 615 | +9% |
| Operating profit | 21.0 | 17.4 | +21% |
| Profit before tax | 21.3 | 18.2 | +17% |
| Earnings per share | 35.42p | 29.72p | +19% |
| Interim dividend per share | 8.00p | 7.00p | +14% |

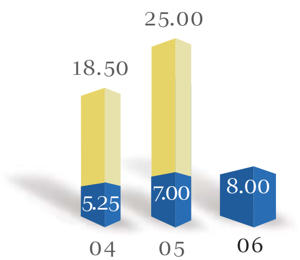
Revenue (£m)




Profit before tax (£m)




Dividend declared (p)




The results for the half years ended 30 June 2006 and 2005 and the balance sheets at those dates have not been audited and do not constitute statutory accounts. The financial information for the year ended 31 December 2005 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

# Chairman and chief executive's statement

## We are pleased to announce another set of record results for the six months to 30 June 2006. Profit before tax rose by 17% to £21.3m (2005: £18.2m) from revenue of £674m (2005: £615m). Earnings per share grew by 19% to 35.42p (2005: 29.72p). Accordingly the interim dividend has been increased by 14% to 8.00p (2005: 7.00p).

The performance of the business was driven primarily by Fit Out and Affordable Housing. The commercial property market continued to strengthen which enabled the Fit Out division to further grow its revenue and profit, while the Affordable Housing division increased both its profit and margin over the same period last year. The Construction division delivered revenue in line with the prior year with a modest improvement in margin. Infrastructure Services' margin has been impacted by a divisional reorganisation. However, the division has secured £600m of new projects during the first half which bodes well for the future.

Cash at 30 June 2006 was £20m (2005: £35m) reflecting the acquisition in March of Gleeson MCL and the anticipated further investment in work in progress at Affordable Housing.

### Divisional reviews

**Fit Out**
Fit Out grew significantly during the first half of 2006 with profit increasing by 29% to £10.2m (2005: £7.9m) on revenue of £182m (2005: £152m).

The office fit out market continued to expand in the period primarily driven by the financial and professional services sectors in London as well as the telecoms and technology sectors in the M4 corridor. The margin reached a record level of 5.6% (2005: 5.2%).

The order book currently stands at £165m, which has lengthened to over 5 months. This reflects the current strength of the fit out market which is anticipated to continue into 2007.

### Construction

Construction continues to focus on the core sectors of health, education, light industrial and commercial property with revenue broadly in line with the prior year at £162m (2005: £164m) but with profit rising to £1.6m (2005: £1.3m). The division made further progress in increasing the balance of its work coming from framework and key client relationships and from its chosen sectors. The order book is £487m which is comparable with the positions at the end of June and December 2005. Overall we anticipate modest growth of the division as it continues to be highly selective in the work it targets.

### Infrastructure Services

Infrastructure Services delivered a profit of £2.7m (2005: £2.8m) on revenue of £143m (2005: £118m). The result includes three months' performance of the rail business which was acquired in March for £23m. This business has performed well since being acquired, delivering £0.3m profit on £9m revenue.

In short, all of the market sectors in which we operate are attractive at present. This offers exciting opportunities and provides a positive outlook for the Group.

The business is focused on non-track rail work and is already working closely with the division's tunnelling business. The division was highly successful in securing £600m of new orders in the first half of the year. Following the appointment of a new managing director, the division has undergone a reorganisation to ensure that it can effectively deliver this increased workload. The one off costs of this reorganisation, all incurred in the first half, were £0.75m.

The forward order book currently stands at a record £1.3bn (2005: £911m), supporting our view that the performance of this division will improve in the medium term.

**Affordable Housing**

Affordable Housing increased its profit by 32% to £10.2m (2005: £7.7m) on revenue of £186m (2005: £180m). The improvement in margin was driven by further focusing on mixed tenure opportunities which lend themselves to Lovell's breadth of expertise in open market, new build and refurbishment of affordable houses. The division's revenue will be weighted towards the second half of this year. The forward order book currently stands at £1.4bn, demonstrating the division's excellent long term prospects.

## Outlook

The Group's overall forward order book now stands at a record £3.4bn. Our market leading businesses in Fit Out and Affordable Housing are continuing to perform strongly in markets that are expected to remain healthy in the medium term. Construction will benefit from public spend in health and education while Infrastructure Services' market is expected to strengthen in 2007. In short, all of the market sectors in which we operate are attractive at present. This offers exciting opportunities and provides a positive outlook for the Group.

John Morgan
Executive Chairman

Paul Smith
Chief Executive

7th August 2006

# Consolidated income statement

## For the six months to 30 June 2006

| | Unaudited Six months to 30 June 2006 £'000s | Unaudited Six months to 30 June 2005 £'000s | Audited Year to 31 December 2005 £'000s |
|---|---|---|---|
| **Revenue** | | | |
| Continuing operations | **664,887** | 615,154 | 1,296,708 |
| Acquisitions | **8,619** | - | - |
| **Revenue** (note 2) | **673,506** | 615,154 | 1,296,708 |
| Cost of sales | **(595,371)** | (546,284) | (1,154,118) |
| **Gross profit** | **78,135** | 68,870 | 142,590 |
| Administrative expenses | **(57,011)** | (51,588) | (103,109) |
| Share of results of joint ventures | **(118)** | 122 | 425 |
| **Operating profit** | | | |
| Continuing operations | **20,739** | 17,404 | 39,906 |
| Acquisitions | **267** | - | - |
| **Operating profit** (note 2) | **21,006** | 17,404 | 39,906 |
| Investment revenues | **1,317** | 1,744 | 3,661 |
| Finance costs | **(1,048)** | (943) | (1,867) |
| **Profit before tax** | **21,275** | 18,205 | 41,700 |
| Tax (note 3) | **(6,382)** | (5,795) | (12,125) |
| **Profit for the period attributable to equity holders of the parent company** | **14,893** | 12,410 | 29,575 |
| **Earnings per share** | | | |
| From continuing operations | | | |
| Basic (note 5) | **35.42p** | 29.72p | 70.74p |
| Diluted (note 5) | **34.23p** | 28.95p | 68.83p |

There are no discounted activities in either the current or preceding year.

# Consolidated balance sheet
## at 30 June 2006

| | **Unaudited 30 June 2006 £'000s** | Unaudited 30 June 2005 £'000s | Audited 31 December 2005 £'000s |
|---|---|---|---|
| **Non current assets** | | | |
| Goodwill | **72,204** | 56,666 | 56,729 |
| Property, plant and equipment | **16,009** | 15,710 | 16,403 |
| Interest in joint ventures | **4,060** | 8,770 | 10,881 |
| Investments | **103** | 103 | 103 |
| Deferred tax | **3,211** | 1,448 | 2,485 |
| | **95,587** | 82,697 | 86,601 |
| **Current assets** | | | |
| Inventories | **101,525** | 89,573 | 87,571 |
| Trade and other receivables | **290,877** | 242,953 | 235,056 |
| Cash and cash equivalents | **20,460** | 34,902 | 72,018 |
| | **412,862** | 367,428 | 394,645 |
| **Total assets** | **508,449** | 450,125 | 481,246 |
| **Current liabilities** | | | |
| Trade and other payables | **(371,211)** | (336,955) | (352,156) |
| Current tax liabilities | **(6,084)** | (5,601) | (6,295) |
| Obligations under finance leases | **(754)** | (947) | (766) |
| | **(378,049)** | (343,503) | (359,217) |
| **Net current assets** | **34,813** | 23,925 | 35,428 |
| **Non current liabilities** | | | |
| Retirement benefit obligation | **(2,977)** | (2,010) | (3,351) |
| Obligations under finance leases | **(1,682)** | (1,814) | (2,059) |
| | **(4,659)** | (3,824) | (5,410) |
| **Total liabilities** | **(382,708)** | (347,327) | (364,627) |
| **Net assets** | **125,741** | 102,798 | 116,619 |
| **Equity** | | | |
| Share capital | **2,118** | 2,111 | 2,116 |
| Share premium account | **26,132** | 25,828 | 26,014 |
| Capital redemption reserve | **623** | 623 | 623 |
| Own shares | **(1,775)** | (1,775) | (1,775) |
| Equity reserve | **2,166** | 112 | 1,052 |
| Hedging reserve | **(1,901)** | (1,814) | (2,238) |
| Retained earnings | **98,378** | 77,713 | 90,827 |
| **Total equity** | **125,741** | 102,798 | 116,619 |

# Consolidated cash flow statement

## For the six months to 30 June 2006

| | Unaudited Six months to 30 June 2006 £'000s | Unaudited Six months to 30 June 2005 £'000s | Audited Year to 31 December 2005 £'000s |
|---|---|---|---|
| **Net cash from operating activities** (note 6) | **(31,861)** | (27,781) | 14,477 |
| **Investing activities** | | | |
| Interest received | **1,229** | 1,754 | 3,686 |
| Dividends received from joint ventures | **7,225** | - | 336 |
| Proceeds on disposal of property, plant, and equipment | **202** | 75 | 1,433 |
| Purchases of property, plant and equipment | **(1,866)** | (2,224) | (4,680) |
| Payments to acquire interest in joint ventures | **(185)** | (3,619) | (6,190) |
| Acquisition of subsidiary (note 8) | **(18,223)** | - | - |
| **Net cash used in investing activities** | **(11,618)** | (4,014) | (5,415) |
| **Financing activities** | | | |
| Payments to acquire own shares | **-** | (782) | (782) |
| Dividends paid | **(7,549)** | (5,530) | (8,459) |
| Repayments of obligations under finance leases | **(530)** | (471) | (1,354) |
| Repayment of loan notes | **(120)** | (120) | (240) |
| Proceeds on issue of share capital | **120** | 153 | 344 |
| **Net cash used in financing activities** | **(8,079)** | (6,750) | (10,491) |
| Net decrease in cash and cash equivalents | **(51,558)** | (38,545) | (1,429) |
| Cash and cash equivalents at beginning of year | **72,018** | 73,447 | 73,447 |
| **Cash and cash equivalents at end of period** | | | |
| Bank balances and cash | **20,460** | 34,902 | 72,018 |

# Consolidated statement of recognised income and expense

## For the six months to 30 June 2006

| | **Unaudited Six months to 30 June 2006 £'000s** | Unaudited Six months to 30 June 2005 £'000s | Audited Year to 31 December 2005 £'000s |
|---|---|---|---|
| Actuarial gains/(losses) on defined benefit pension schemes | **319** | 215 | (1,284) |
| Tax on items taken directly to equity | **(112)** | (65) | 312 |
| Changes in fair value of cash flow hedging derivatives | **337** | (1,814) | (2,238) |
| **Net income recognised directly in equity** | **544** | (1,664) | (3,210) |
| **Profit for the period attributable to equity holders of the parent company** | **14,893** | 12,410 | 29,575 |
| **Total recognised income and expense for the period attributable to equity shareholders** | **15,437** | 10,746 | 26,365 |

# Consolidated statement of changes in equity

## For the six months to 30 June 2006

| | **Unaudited Six months to 30 June 2006 £'000s** | Unaudited Six months to 30 June 2005 £'000s | Audited Year to 31 December 2005 £'000s |
|---|---|---|---|
| **Balance at start of period** | **116,619** | 98,159 | 98,159 |
| Profit for the period | **14,893** | 12,410 | 29,575 |
| Recognition of share based payments | **411** | 73 | 589 |
| Income tax on share based payments | **703** | - | 424 |
| Interim dividend declared and paid | **-** | - | (2,929) |
| Prior year final dividend paid | **(7,549)** | (5,551) | (5,551) |
| Actuarial gains/(losses) on defined benefit pension scheme | **319** | 215 | (1,284) |
| Income taxes on pension scheme | **(112)** | (65) | 312 |
| Own shares purchased | **-** | (782) | (782) |
| Options exercised | **120** | 153 | 344 |
| Changes in fair value of cash flow hedging derivatives | **337** | (1,814) | (2,238) |
| **Balance at end of period** | **125,741** | 102,798 | 116,619 |

# Notes to the interim report

## 1 Principal accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements IFRS 7 and IFRIC 7 to 10, which have not been applied in these financial statements, were in issue but not yet effective. The directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the Group.

The same accounting policies and methods of computation are followed in the interim financial statements as in the 31 December 2005 report and accounts with the exception that IFRS 6 and IFRIC 4 to 6 have been adopted where applicable to the Group.

## 2 Analysis of revenue and profit from business segments

| | Unaudited Six months to 30 June 2006 | | Unaudited Six months to 30 June 2005 | |
|---|---|---|---|---|
| | **Revenue £'000s** | **Operating profit/(loss) £'000s** | Revenue £'000s | Operating profit/(loss) £'000s |
| Fit Out | **182,159** | **10,210** | 152,495 | 7,886 |
| Construction | **161,677** | **1,550** | 164,098 | 1,274 |
| Infrastructure Services | **143,127** | **2,692** | 118,171 | 2,753 |
| Affordable Housing | **186,467** | **10,189** | 180,390 | 7,723 |
| Group activities | **76** | **(3,517)** | - | (2,354) |
| | **673,506** | **21,124** | 615,154 | 17,282 |
| Share of results of joint ventures | | **(118)** | | 122 |
| **Operating profit** | | **21,006** | | 17,404 |
| Investment income | | **1,317** | | 1,744 |
| Finance costs | | **(1,048)** | | (943) |
| **Profit before tax** | | **21,275** | | 18,205 |
| Tax | | **(6,382)** | | (5,795) |
| **Profit for the period attributable to equity holders of the parent company** | | **14,893** | | 12,410 |

# Notes to the interim report

## 3 Tax

| | Unaudited Six months to 30 June 2006 £'000s | 2005 £'000s |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax | **6,517** | 5,795 |
| | **6,517** | 5,795 |
| **Deferred tax:** | | |
| Current year | **(135)** | - |
| | **6,382** | 5,795 |

Corporation tax for the interim period is charged at 30% (2005: 32%), being the estimated effective corporation tax rate for the full financial year.

## 4 Dividends

| | Unaudited Six months to 30 June 2006 £'000s | 2005 £'000s |
|---|---|---|
| Final dividend for the year ended 31 December 2005 of 18.00p (2004: 13.25p) per share | **7,549** | 5,551 |
| Interim dividend for the period to 30 June 2006 of 8.00p (2005: 7.00p) per share | **3,389** | 2,920 |

The interim dividend was approved by the Board on 7 August 2006 and has not been included as a liability at 30 June 2006.

The interim dividend of 8.00p (2005: 7.00p) per share will be paid on 29 September 2006 to shareholders on the register at 1 September 2006. The ex-dividend date will be 30 August 2006.

## 5 Earnings per share

There are no discontinued operations in either the current or prior year.

The calculation of the basic and diluted earnings per share is based on the following data:

| | Unaudited Six months to 30 June | |
|---|---|---|
| **Earnings** | **2006 £'000s** | 2005 £'000s |
| Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company | **14,893** | 12,410 |

| | Unaudited Six months to 30 June | |
|---|---|---|
| **Number of shares** | **2006 '000s** | 2005 '000s |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **42,042** | 41,756 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **1,145** | 920 |
| LTIP shares | **265** | 190 |
| Executive Remuneration Plan | **57** | - |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **43,509** | 42,866 |

# Notes to the interim report

## 6 Reconciliation of operating profit to net cash from operating activities

| | Unaudited Six months to 30 June 2006 £'000s | Unaudited Six months to 30 June 2005 £'000s | Audited Year to 31 December 2005 £'000s |
|---|---|---|---|
| **Operating profit** | **21,006** | 17,404 | 39,906 |
| Adjusted for: | | | |
| Share of results of joint ventures | **118** | (122) | (425) |
| Depreciation of property, plant and equipment | **2,296** | 1,982 | 4,505 |
| Expense in respect of share options | **411** | 73 | 589 |
| Defined benefit pension payment | **(120)** | - | (240) |
| Defined benefit pension charge | **65** | - | 82 |
| (Gain)/loss on disposal of property, plant and equipment | **(4)** | 30 | (919) |
| **Operating cash flows before movements in working capital** | **23,772** | 19,367 | 43,498 |
| Increase in inventories | **(13,954)** | (28,756) | (26,754) |
| Increase in receivables | **(45,704)** | (39,870) | (31,969) |
| Increase in payables | **11,446** | 28,142 | 43,118 |
| **Cash (absorbed by)/generated from operations** | **(24,440)** | (21,117) | 27,893 |
| Income taxes paid | **(6,533)** | (5,766) | (11,658) |
| Interest paid | **(888)** | (898) | (1,758) |
| **Net cash from operating activities** | **(31,861)** | (27,781) | 14,477 |

There were no additions to plant, property and equipment during the period that were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

# 7 Retirement benefit schemes

The Group operates a plan on defined contribution principles which includes some defined benefit liabilities, full details of which are disclosed in the Group's annual report and accounts. For the purposes of understanding these interim financial statements details of the valuation of the scheme are given below.

| | Unaudited Six months to 30 June | | Audited Year to 31 December |
|---|---|---|---|
| | **2006 £'000s** | 2005 £'000s | 2005 £'000s |
| Fair value of the scheme assets | **4,391** | 4,083 | 4,430 |
| Present value of defined benefit obligations | **(7,368)** | (6,093) | (7,781) |
| Deficit in the scheme | **(2,977)** | (2,010) | (3,351) |
| Related deferred taxation at 30% | **893** | 604 | 1,004 |
| Net pension liability | **(2,084)** | (1,406) | (2,347) |

# 8 Acquisitions

**Primary Medical Property Limited**

On 1 February 2006 the Group purchased the remaining 52.5% shareholding in Primary Medical Property Limited from certain private individuals for £11.1m. Subsequently, the Group agreed to dispose of 50% of its interest by way of entering into a 50-50 owned joint venture agreement with a fund managed by Barclays Private Equity.

**Gleeson MCL Limited**

On 24 March 2006 the Group acquired the entire issued share capital of Gleeson MCL Limited. Consideration of £22.8m was satisfied by cash and there were costs of approximately £0.2m which have been capitalised. Tangible net assets acquired were £7.5m including cash of £4.6m and in addition provisional fair value adjustments have been made recognising assets totalling £0.1m. The resultant value of goodwill capitalised of £15.5m is provisional and will be subject to any subsequent adjustments required to fair value of the net assets acquired.

## Share prices (FT cityline)

The Company's share price (15 minute delay) is displayed on the Company's website.

The EPIC code as used in the Topic and Datastream Share Price information service is MGNS.

## Telephone share dealing service

Details of a low cost telephone dealing service with Stocktrade are available on the Company's website under Investor Relations

## Electronic Communications

Shareholders may now view their shareholdings on line through the website of our registrars, Capita Registrars. If you wish to view your shareholding, please log onto www.capitaregistrars.com and click on the link 'shareholder services' then follow the instructions.

The Company would also like to take advantage of recent changes to the law, which allow us to communicate with shareholders in electronic form. If you would like to receive future communications in this way, please register your e-mail address on the registrars' website, following the instructions provided. This form of communication offers a cost benefit to the Company and provides for an environmentally friendly way of communicating. The Company would therefore encourage as many shareholders as possible to make use of this enhanced service.

To use this service, you will need to confirm your surname, UK postcode and Investor Code. The Investor Code may be found on a recent share certificate, in the bottom right hand corner, or on the tax voucher for the forthcoming dividend payment.

## Company Secretary

Mary Nettleship

## Registered Office

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## Website

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## Registrars

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MORGAN SINDALL

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