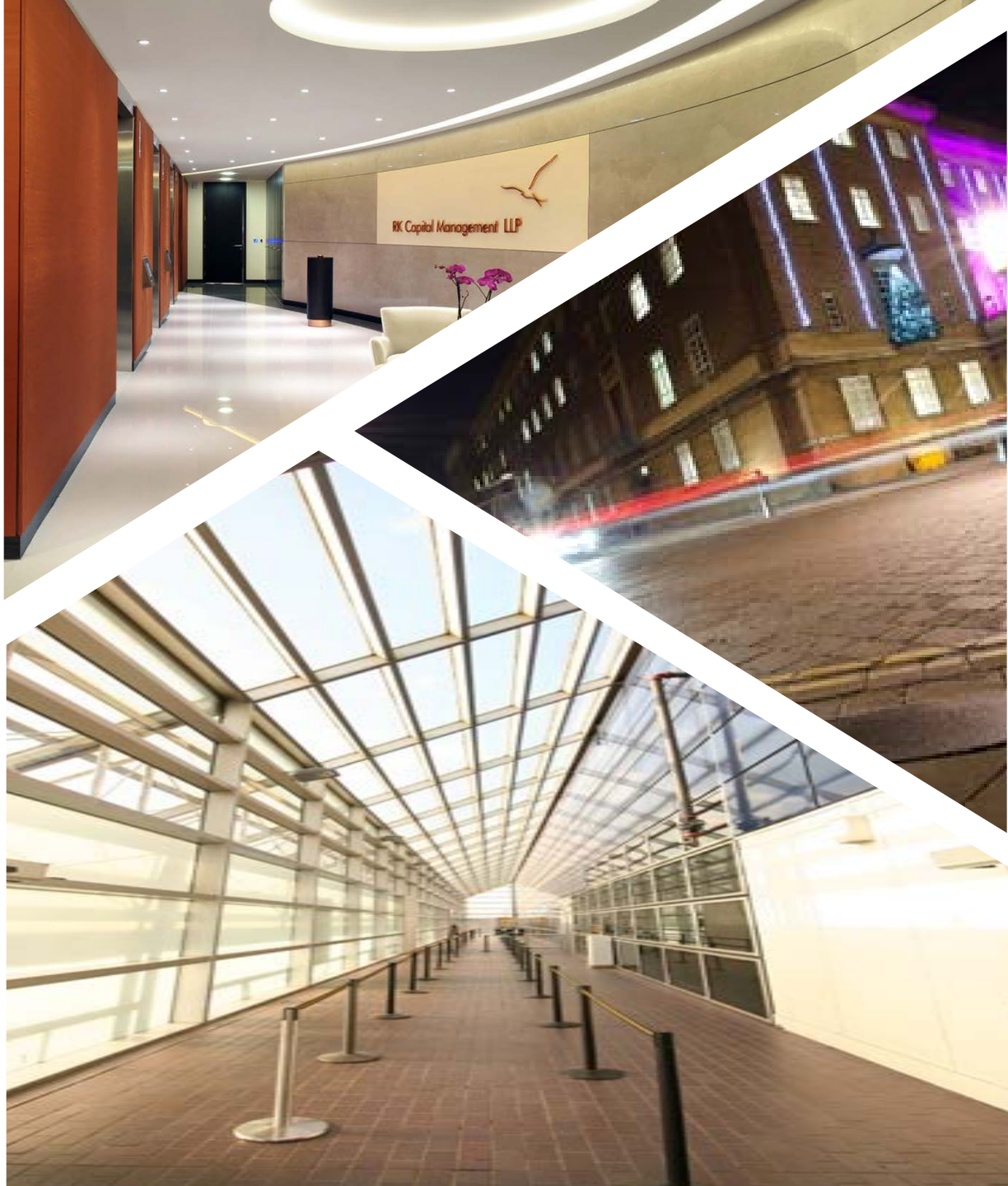
MORGAN SINDALL GROUP

2012 Preliminary results

Morgan Sindall Group plc
Constructing and Regenerating



19 February 2013

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2012 Overview

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- Board Changes
  - Adrian Martin as Chairman
  - John Morgan as Chief Executive
  - Steve Crummett joins as Finance Director
  - Liz Peace as NED, Audit Committee Chair from AGM
- Consistent strategy
  - UK construction and regeneration; focus on segments where we can achieve market-leading position
  - Markets that offer best potential for growth with superior returns
  - Invest and grow our two regeneration divisions, particularly through targeting major schemes

2012 Overview

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- Emphasis on
  - Greater collaboration between divisions
  - Margin improvement
  - Develop new and emerging opportunities
- Market and performance
  - Market remains challenging; four years of declining output
  - Solid performance in 2012 against this backdrop
- Dividend and future prospects
  - Dividend brought back into line with long-term policy
  - Sound forward order book at £3.1bn
  - Group well-positioned to emerge stronger from the recession

David Mulligan
Finance Director

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Results in line with expectations

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£m	2012	2011	Change
Revenue	2,047	2,227	-8%
Underlying profit from operations	48.1	46.1	+4%
Non-recurring items	(10.0)	(1.4)	
Net finance exposure	(1.0)	(0.8)	
Adjusted profit before tax [1]	37.1	43.9	-15%
Amortisation	(2.9)	(3.9)	
Profit before tax	34.2	40.0	-15%
Adjusted earnings per share [2]	79.3p	86.7p	-9%
Total dividend per share	27.0p	42.0p	-36%

- Solid performance
  - Underlying profit from operations includes profit on disposal of medical property investments of £7.0m
  - £10m reorganisation cost

[1] profit before tax and amortisation
[2] basic earnings per share before amortisation

Segmental analysis

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£m	December 2012			December 2011		
	Revenue	**Profit**	**Margin**	Revenue	Profit	Margin
Construction and Infrastructure	**1,168**	**19.7**	**1.7%**	1,268	21.1	1.7%
Fit Out	**427**	**11.3**	**2.6%**	438	12.4	2.8%
Affordable Housing	**386**	**11.5**	**3.0%**	462	18.5	4.0%
Urban Regeneration	**62**	**2.7**	**4.3%**	57	3.9	6.9%
Investments	**4**	**7.4**		2	(3.9)	
TOTAL REVENUE	**2,047**			2,227		
Group Activities		**(4.5)**			(5.9)	
OPERATING PROFIT*		**48.1**			46.1	
Interest		**(1.0)**			(0.8)	
Non-recurring items		**(10.0)**			(1.4)	
Adjusted profit before tax[1]		**37.1**			43.9	

[1] profit before tax and amortisation
*Operating profit is profit from operations before amortisation of intangible assets and non-recurring items

2012 non-recurring items

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£m	
Construction	
Redundancies	**3.6**
Property closures	**3.2**
Affordable Housing	
Redundancies	**2.5**
Other	**0.7**
	10.0

> Major reorganisation of construction and affordable housing activities undertaken in 2012

> Property cost covers remaining lease term of properties no longer in use

Tax

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£m	2012	2011
Current tax		
UK tax	**5.4**	10.0
Prior period adjustment	**(0.8)**	(25.1)
Current tax exposure	**4.6**	(15.1)
Deferred tax		
Current year	**(1.3)**	(1.0)
Prior period adjustment	**0.2**	23.3
Deferred tax expense	**(1.1)**	22.3
Income tax expense	**3.5**	7.2
Effective tax rate	**12.3%**	18.1%

- Tax charge below normal rate
  - Gains on disposal of investments (£2.2m)
  - Deferred tax credit (£1.5m)
  - Prior year adjustments (£0.6m)

Balance sheet

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£m	December 2012	December 2011	YOY Movement
Intangible fixed assets	223.2	226.6	-3.4
Tangible fixed assets	20.1	21.6	-1.5
Investments (inc joint ventures)	73.9	61.3	+12.6
Shared equity loan receivables	19.2	17.6	+1.6
Inventories	159.4	146.0	+13.4
Other working capital	(271.2)	(316.6)	+45.4
Current and deferred tax	(24.2)	(28.5)	+4.3
Pension scheme	(1.5)	(1.3)	-0.2
Cash	50.4	108.9	-58.5
Net assets	249.3	235.6	+13.7

- Increase in investments driven by increased interest in ISIS Waterside Regeneration JV for £18.5m and new investments (£10.2m) offset by disposal of medical properties (£13.3m)
- Reduction in cash
  - Longer payment terms from clients (£15m)
  - Reduction in construction revenue of (£30m)
  - Modest increase in inventories (£13m)
  - Minimal pension deficit at £1.5m on gross liabilities of £10.4m

Cashflow

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£m	Year to December 2012	Year to December 2011
Profit from operations	**35.2**	40.8
Non-cash and other adjustments	**(5.8)**	13.1
Working capital movement	**(78.1)**	(56.9)
Net investment in PPE	**(2.4)**	(0.8)
Income tax	**(8.1)**	(6.8)
Dividends	**(17.8)**	(17.8)
Net interest paid	**(0.8)**	(0.6)
Disposal of JVs	**26.2**	-
Net payment for acquisition of JVs and other businesses	**(7.0)**	(6.7)
Net cashflow	**(58.5)**	(39.7)
Cash at beginning of period	**108.9**	148.6
Cash at end of period	**50.4**	108.9

- £38m improvement in working capital 2H12 as expected; overall cash improved by £62m in 2H12
- Year end cash of £50.4m (2011: £108.9m) with average net debt of £40m (2011: net cash £23m)
- Progress made with Connaught debt recovery at £25m out of £28m target), with further recoveries expected

John Morgan
Chief Executive

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Priorities

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- Target schemes requiring integrated approach where we have competitive advantage
- Construction and Infrastructure – hold construction margins and expand infrastructure
- Fit Out – focus on improving margin
- Affordable Housing – target larger mixed-tenure schemes
- Urban Regeneration – exploit existing schemes
- Investments – generate work for other divisions and sell mature investments
- Continue with tight management of working capital and overheads, and careful contract selection

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Construction and Infrastructure

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Construction and Infrastructure
Market and Trading Highlights

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Revenue				Adjusted Operating Profit		
2012	2011	Change		**2012**	2011	Change
£1,168m	£1,268m	-8%		**£19.7m**	£21.1m	-7%

- Rebalanced business following reorganisation of construction capacity
- Infrastructure revenue £550m (2011: £521m) increasing as expected
- Construction revenue £618m (2011: £747m); London and SE robust but other regions challenging
- Margin steady at 1.7% (2011: 1.7%)
- Growth in target sectors of energy, rail, aviation and roads
- Longer-term frameworks increasingly important; secured Sellafield (est £1.1bn over 15 years in joint venture)
- Importance of Professional Services for early engagement with clients on projects

Construction and Infrastructure
Outlook

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- In short-term expect market to remain highly competitive
- Expect revenue and profit to reduce further in 2013
- Continuing focus on growth infrastructure markets into medium-term
- Increase workload from existing frameworks
- Forward order book at £1.5bn (2011: £1.6bn) and preferred bidder at £0.5bn (2011: £0.3bn)

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a passion for perfection

Morgan Lovell
Inspiring office transformation

Fit Out

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Fit Out
Market and Trading Highlights

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Revenue				Adjusted Operating Profit		
2012	2011	Change		**2012**	2011	Change
£427m	£438m	-3%		**£11.3m**	£12.4m	-9%

- Maintained market-leading position and increased market share
- Market remains very competitive with margins tighter at 2.6% (2011: 2.8%)
- Resilient pipeline of smaller refurbishments but limited number of large opportunities
- Continued trend towards refurbishment
- Progress in higher education sector and regional markets

Fit Out
Outlook

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- Positive start to 2013 but market remains fluid
- Expect market conditions in 2013 to be similar to 2012
- Increasing number of significant lease events (6x long-term average) over next five years; ‘Big Bang’ leases coming to an end
- Focus on Perfect Delivery to underpin market leadership
- Targeting greater levels of repeat work from existing clients and frameworks
- Forward order book at £170m (2011: £216m)

LOVELL

Affordable Housing

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Affordable Housing
Market and Trading Highlights

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Revenue				Adjusted Operating Profit		
2012	2011	Change		**2012**	2011	Change
£386m	£462m	-17%		**£11.5m**	£18.5m	-38%

- Challenging year in a demanding market
- Restructured the business in response to hardening market conditions
- Performance held back by lower than normal returns from a small number of mature mixed-tenure projects
- Significant reduction in social housing starts and Decent Homes programmes drawing to a close
- Margin at 3.0% (2011: 4.0%)
- Open market units up 15% at 383 (2011: 332) at ASP of £155k (2011: £141k)
- R&M pipeline steady, £110m of new projects secured

Affordable Housing
Market Sectors

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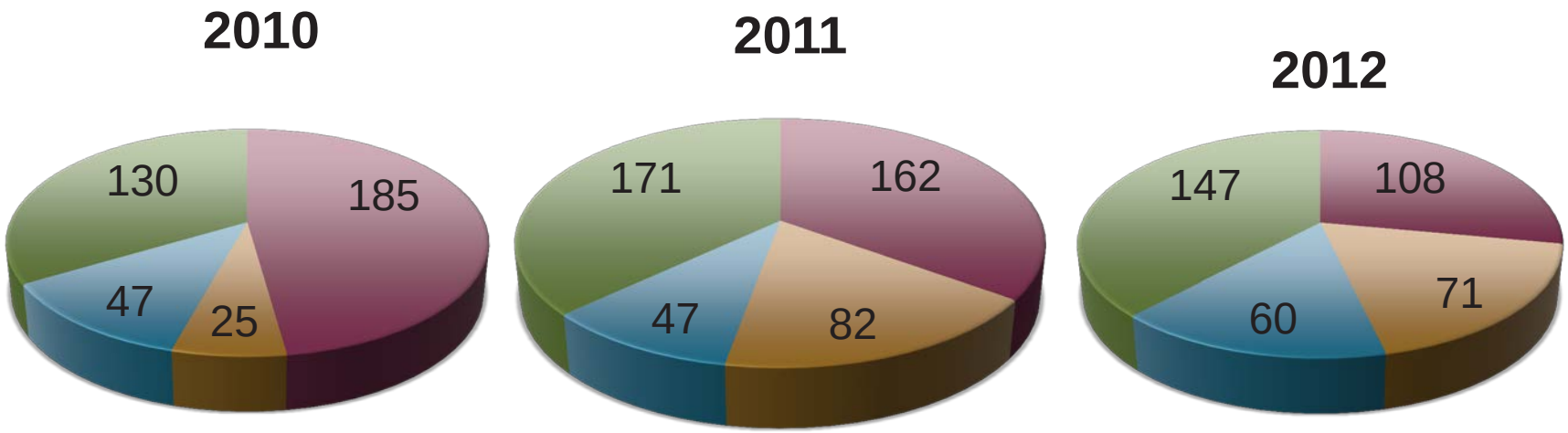

Revenue £387m **£462m** **£386m**

Planned Maintenance | Response Maintenance | Open Market | New Building Social Housing

Affordable Housing
Outlook

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- No material change expected in housing market, with Government initiatives continuing to lend support for first time buyers
- Possible increase in new build social housing as clients seek to meet deadlines
- Target larger R&M opportunities
- Increasing importance of major, mixed-tenure development opportunities
- Forward order book at £1.3bn (2011: £1.5bn)

Urban Regeneration

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Urban Regeneration
Market and Trading Highlights

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Revenue				Adjusted Operating Profit		
2012	2011	Change		**2012**	2011	Change
£62m	£57m	+9%		**£2.7m**	£3.9m	-31%

- Increase in revenue and activity
- Development agreements signed at Stockport (£150m) and Basingstoke (£200m)
- Acquisition for £18.5m of further 25% of ISIS JV taking interest to 50%
  - Short-term impact of increased share of operating costs
  - Medium-term increased share of profit from next phases of regeneration
  - Consideration payable in stages from 2013-2017
- £45m of Get Britain Building funding secured across seven development schemes
- Planning secured for 700,000 sq ft of new development
- Capital employed of £58m (2011: £66m)

Urban Regeneration
Outlook

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- Well placed to harness Government regeneration initiatives
- Expect to commence construction across ten schemes in 2013; 40% increase in activity
- Invest approximately £10m of working capital in 2013 to drive medium-term growth as schemes are developed
- Targeting 15% average ROCE over the course of the cycle
- Long-term pipeline growing with share of regeneration schemes at £1.9bn (2011: £1.6bn) with further £0.3bn schemes at preferred bidder (2011: £0.6bn)

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Investments

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Investments
Market and Trading Highlights

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£m	2012	2011
Invested to date	**20.0**	19.1
Directors' portfolio valuation at discount rates (7-9%)	**32.0**	49.3
Committed but not invested	**2.3**	10.4
Current carrying value	**18.2**	23.2

- Adjusted operating cost £7.1m (2011: £5.5m) and income from JVs £5.7m (2011: £1.6m)
- Realised investments in line with strategy to recycle capital; £7.0m profit on sale of medical property investments
- Value of portfolio demonstrated by sale of investments above directors' valuation
- Strengthened position in LABV sector by preferred developer appointment at Slough LABV
- Secured Western Hub framework in Scotland

Investments
Outlook

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- Opportunities for Construction and Infrastructure and Affordable Housing divisions within Slough and Bournemouth LABVs
- Further land-swap regeneration opportunities; capitalise on joined-up skills of the Group given size and complexity
- Continue to realise maturing investments
- Longer-term opportunities under PF2
- Regeneration pipeline at £0.2bn (2011: £0.2bn)

Closing Remarks

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Forward order book

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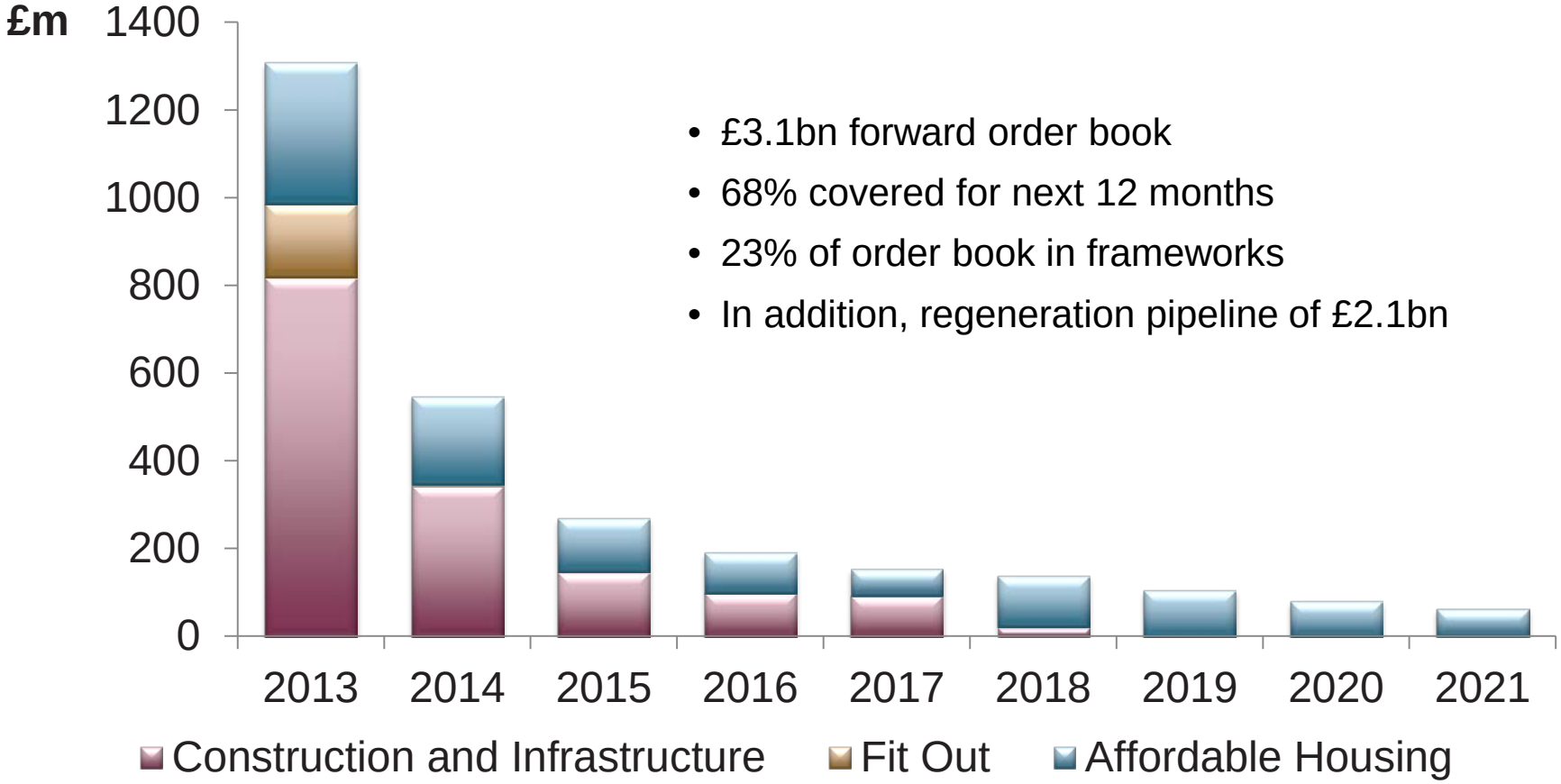

- £3.1bn forward order book
- 68% covered for next 12 months
- 23% of order book in frameworks
- In addition, regeneration pipeline of £2.1bn

Note: excludes regeneration pipeline

Outlook and Prospects

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- Expect market in 2013 to remain challenging
- 2014 outlook improving
  - Infrastructure schemes secured
  - Urban Regeneration increasing activity on-site
  - Affordable Housing focused on major, mixed-tenure schemes
- Confirmed confidence in strategy
- Develop new and emerging opportunities

Notes

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