Constructing and regenerating

MORGAN SINDALL

Half year report 2012

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Group highlights

The Group has delivered a solid performance in line with expectations. The business environment remains challenging. However, our breadth and depth of expertise is providing us with a level of resilience to help manage through these market conditions.

Forward order book £bn

£3.2bn half year

Regeneration pipeline £bn

£1.8bn half year

Construction highlights

The Group is enhancing its market position in construction, having secured key opportunities in infrastructure sectors in which it has a strong track record. The Group's breadth of skills will enable it to provide integrated approaches to its clients' most complex projects.

- Growing strength in infrastructure sectors with success in rail, aviation and energy
- Public sector exposure reducing, now below 50% of revenue
- Maintained margins
- Fit Out growing market share in retail banking, education and in regional businesses
- Sound forward order book at £3.2bn

Revenue £m

£1,000m half year

Profit before tax £m

£18.8m half year

Profit before tax, amortisation and non-recurring items £m

£20.3m half year

Adjusted EPS pence

39.3p half year

Basic EPS pence

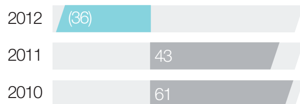
35.8p half year

Interim dividend declared pence

12.0p half year

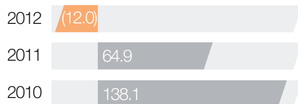
Average (net debt) / net cash balance £m

(£36m) half year



Period end (net debt) / net cash £m

(£12.0m) half year



Regeneration highlights

The release of land from the public sector will drive mixed-use and housing-led regeneration in the medium term. The Group continues to invest in regeneration.

- Five major planning consents secured by Urban Regeneration
- Increased investment in regeneration of £21m over past 12 months
- Increased number of mixed-tenure housing sites
- Targeting 15% average ROCE on regeneration projects through the cycle.
- Unlocking land values for clients and playing a leading role in regenerating deprived areas
- Investments disposal of mature investments to recycle capital into new projects
- Regeneration pipeline at £1.8bn with a further £0.6bn at preferred developer

Half year report for the six months to 30 June 2012

A solid performance in a competitive market

We have delivered a solid performance in the six months to 30 June 2012 with trading in line with our expectations. Our business environment remains challenging as the continuing uncertainties in the Eurozone and further afield affect global sentiment, which in turn are impacting public spending and private sector confidence in the UK market, and delaying investment decisions. The market also continues to be characterised by a high degree of competition and pricing pressures. However, our breadth and depth of expertise is providing us with a level of resilience to help manage through these conditions. We have made good progress in difficult markets, holding or improving our market position in all of our key sectors. More creative partnering is helping our public sector clients overcome funding constraints by proposing alternative approaches to using their assets. On regeneration schemes we are using our expertise to turn marginal projects into viable schemes. Strong existing relationships within our markets are also driving repeat business and increased workloads within existing frameworks. We have continued with our strong cost discipline and remain committed to our strategy of investing the cash generated from our construction activities to grow our regeneration-related divisions and capitalise on the medium-term opportunity driven by release of land by the public sector. Our focus on growth sectors of the infrastructure market, where we have proven expertise, and our increased investment in regeneration continue to give us the best potential to capitalise on opportunities, achieve quality margins and deliver revenue and profit growth in the medium-term.

Revenue for the half year was £1,000m (2011: £1,087m) with profit before tax, amortisation and non-recurring items of £20.3m (2011: £19.5m), up slightly on the previous year. Profit before tax for the period (after amortisation of intangible assets of £1.5m) was £18.8m (2011: £16.7m after amortisation and non-recurring items). Adjusted earnings per share was 39.3p (2011: 35.1p) and the interim dividend has been maintained at 12.0p (2011: 12.0p).

At 30 June 2012 we had net debt of £12m (2011: net cash of £65m). Average net debt for the period was £36m (2011: average net cash of £43m). The year-on-year change in the cash position has been driven primarily by increased investment in regeneration and joint ventures coupled with a reduction in the cash generated from our construction related activities. Subsequent to the period end, the Group's balance sheet strength has been boosted following the sale of our medical properties interests for £24m on 20 July. We expect a cash inflow from reducing the level of working capital in the second half of the year.

We continue to benefit from our straightforward and collaborative approach to reducing complexity for our clients and an unrelenting focus on our Perfect Delivery programme to provide a quality service across all our activities. This constant investment in quality has resulted in highly valued long-term client relationships. To ensure the Group continues to operate profitably, we have maintained our high levels of scrutiny of overheads, and continued our drive to be selective in the contracts for which we bid.

Market Review

For **Construction and Infrastructure** the market remains competitive with downward pressure on prices and bidding margins. Despite these conditions, the division has continued to develop its market position and enhance its reputation within its broad range of chosen market sectors. Public sector opportunities and volumes of work are reducing as expected but investment in economic infrastructure is helping the division's order book hold up reasonably well.

Whilst the absence of larger projects continues to impact the London office market, **Fit Out** is performing well in constrained market conditions. It has a healthy pipeline of refurbishment opportunities and the expected increase in lease expiries in 2013, as well as new properties being developed, should help stimulate the market in the medium-term.

Affordable Housing's open market sales continue to be impacted by the lack of mortgage availability for first-time buyers and the withdrawal of the stamp duty holiday, so we are introducing initiatives such as the Government-backed NewBuy scheme in order to boost new home sales. The reduced flow of Government grants is having a significant impact on development and the division is successfully applying its creative partnering approach to help public and private sector clients identify opportunities and overcome funding constraints.

Future growth is anticipated to be driven by mixed-tenure regeneration and we continue to invest in the division's growing portfolio of schemes. The division is particularly focusing on complex land swap opportunities facilitated by the release of public sector land to deliver much needed quality affordable housing.

Urban Regeneration has reached significant milestones this year on a number of schemes within its portfolio, including five new planning consents. It has also turned a number of marginal projects into viable schemes through its expertise in securing funding from Government initiatives in place to stimulate the economy. Whilst the market remains subdued as the macro environment impacts on occupier confidence and liquidity a strong geographic spread of projects leaves the division well placed to capitalise on pre-letting opportunities as the economy recovers and

occupier demand returns. It should also benefit from its increasing exposure to the residential market in London and the South East which remains more buoyant than other regions due to a shortage of new supply and strong foreign investment.

With the shape of future PFIs remaining unclear, **Investments** continues to help its primarily public sector partners to overcome barriers to successful development. Its flexible financial models are helping to counteract reduced public spending, enabling its partners to release value from existing assets. In line with its strategy to realise investments as they mature and to recycle capital into new projects, the division completed the £3.8m sale of its interest in the Dorset Fire & Rescue PFI, as well as the sale of its medical properties interests in July for £24m.

Outlook

Our performance in the first half of the year gives us confidence that we remain on track to meet our expectations for this financial year. We are encouraged by the continuing opportunities in growth infrastructure sectors where we are leveraging our specialist expertise. With the vital need for housing-led and mixed-use regeneration across the country, our track record of successful delivery, financial strength and ability to source private financing is a compelling offer for clients seeking to achieve large-scale social and economic renewal. Our sound forward order book of £3.2bn (2011: £3.5bn) supplemented by our regeneration pipeline of £1.8bn (2011: £1.8bn) provides us with good visibility of future work and we have positioned the Group to respond swiftly to opportunities and any shifts in economic and operating conditions.

Conditions will remain challenging in the short-term, with little sign of improvement due to the delay in the expected recovery of the economy. However, we remain confident that our strategy to further develop our market positions across all our construction markets and invest in our regeneration-related activities will deliver sustained and profitable growth in the medium-term.

Divisional performance

Construction and Infrastructure

	2012	2011	Change
Revenue	**£583m**	£617m	-6%
Operating profit*	**£8.5m**	£9.5m	-11%
Margin	**1.5%**	1.5%	
Forward order book	**£1.5bn**	£1.9bn	

Focus on growth infrastructure sectors

Construction and Infrastructure delivered an operating profit of £8.5m (2011: £9.5m) on revenue of £583m (2011: £617m). The operating margin was firm at 1.5% (2011: 1.5%) but remains under continued pressure due to the highly competitive market.

The division is maintaining its focus on growth sectors within infrastructure that are benefiting from investment and therefore offer the most opportunity. These are in sectors where Construction and Infrastructure can leverage its specialist expertise, significant track record and reputation and where margins are less constrained. Despite the highly competitive market, the division has maintained its market-leading position within tunnelling and aviation, and strengthened its leading reputation in the rail, highways, energy and water sectors. Across these sectors good progress has been made over the past six months with significant project wins, high profile framework appointments and new work within existing frameworks.

Projects demonstrate infrastructure expertise

In the rail sector, the division's order book continues to grow and the outlook is positive. New work in excess of £20m has been won within the Multi Asset Framework Agreement in joint venture for Network Rail and the division is nearing completion of a £7m contract to undertake work at Waverley station in Edinburgh. In the water sector the division has been awarded, in joint venture, a £26m contract within the AMP5 framework agreement with Yorkshire Water Services to improve Scarborough's bathing water quality through the construction of new storm water storage tunnels. In addition, and as part of the same AMP5 framework agreement, it has won a £28m contract in joint venture for the design and build of a pioneering new energy scheme at the Esholt Waste Water treatment works in Yorkshire. On the UK's highways, the division has successfully completed on time, in joint venture, a £209m contract as part of the £318m A1 Dishforth to Leeming scheme, and its £136m contract in joint venture on the M62 Managed Motorways project is progressing on programme, having already achieved £48m of value engineering and efficiency savings for the client.

Aviation is another significant growth sector and the division is currently working at nine of the UK's 15 major airports. Earlier this year the completion of a new £10m air traffic control tower at Birmingham Airport, the fifth major project undertaken for this client, reinforced the division's specialist expertise and also demonstrated its integrated approach to highly technical projects through working with its in-house design team, Morgan Sindall Professional Services.

The energy sector has provided significant opportunities this year. At the start of the year, National Grid awarded a five-year substation contract extension to Electricity Alliance Central, a consortium including the division. The contract extension is to deliver major enhancements to the UK's electrical transmission infrastructure and was awarded due to the success of the consortium's work in the previous five years. The original award was part of a programme worth up to £2.8bn to upgrade and develop the electricity transmission across England and Wales. In addition, a five-year joint venture Area Alliance Agreement has been signed with National Grid to deliver an overhead line construction programme across England and Wales drawing on the division's specialist extra high voltage expertise.

Reinforcing its expertise in the commercial sector, relationships have been deepened with both developer St. Modwen and Birmingham City Council with the appointment to deliver the £70m Longbridge town centre development.

Well positioned in competitive market

The market will undoubtedly remain competitive. The division expects a rise in opportunities as an increase in spend is expected in infrastructure, primarily in the rail and energy sectors, and it is well positioned to take advantage of this anticipated investment. With its forward order book at £1.5bn (2011: £1.9bn), the divisions exposure to a broad range of market sectors combined with its relentless focus on exceptional customer experience and enhancing relationships with existing clients continues to serve it well. Construction and Infrastructure will continue to respond to current economic conditions through maintaining its drive to identify innovative best value solutions for its clients, selecting the best opportunities that suit its strengths and carefully managing supply chains.

Fit Out

	2012	2011	Change
Revenue	**£191m**	£222m	-14%
Operating profit*	**£5.5m**	£6.1m	-10%
Margin	**2.9%**	2.7%	
Forward order book	**£230m**	£133m	

Growing importance of repeat and framework clients

Fit Out's operating profit for the period was £5.5m (2011: £6.1m) on revenue of £191m (2011: £222m). The operating margin improved slightly at 2.9% (2011: 2.7%). The division has recently started a particularly large refurbishment contract in central London for a professional services client and it is expected that its performance for this year will be weighted to the second half of the year. Whilst the sector remains characterised by a lack of major projects, the division has performed well in a highly competitive environment. The continuing investment in Perfect Delivery and providing a superior customer experience is distinguishing the division, as demonstrated by the fact that 50% of its refurbishment business is coming from repeat or framework clients.

Growing market share in new sectors

In line with its strategy, the division continues to increase market share in education and retail banking, identifying opportunities where it can leverage its specialist technology expertise and demonstrate its exceptional standards in project delivery and client experience. The division has been appointed by St George's, the UK's only independent medical and healthcare higher education institution, on its 11,000 sq ft Jenner Wing refurbishment and by University of Westminster with a 15,000 sq ft refurbishment project. In retail banking, Fit Out is building on existing relationships and is now working with four of the five major UK banks through project work and expanding framework appointments.

The division has extended its footprint at MediaCityUK in Salford, Manchester following its high profile projects with the BBC and the University of Salford, and is now working for ITV on the 60,000 sq ft fit out of its new offices. On completion, this project will bring the total amount of space the division has fitted out at MediaCityUK to approximately 540,000 sq ft.

International SOS' new London headquarters and alarm centre now provides a global hub for co-ordinating medical, security and travel advice services and a centre for 24-hour crisis response. The division's specialist technical expertise was called upon during the fit out of the high-tech critical server, communications and UPS rooms, which was completed to plan in less than seven weeks. In Belgravia, the division has also completed the refit of the five star 85-bed Belgraves Hotel, now US operator Thompson's flagship European property. The hotel also offers an 80-seat destination restaurant, a high-tech gymnasium and a library bar.

The division is performing well and growing market share in its regional markets. Key contracts recently secured include an office relocation for insurance specialist, Lockton, in Birmingham and the refurbishment of the Bristol office of Reynolds Porter Chamberlain.

Significant opportunities in medium-term

The division believes that new clients as well as its loyal client base will enable it to continue to grow its share of both the refurbishment and fit out markets in the current economic climate. With its forward order book currently standing at £230m (2011: £133m), Fit Out will continue to target sectors with growth potential especially education and retail banking. The division has positioned itself to capitalise on the expected increase in lease expiries across the country next year, as well as new properties being developed, which will offer it significant opportunities in the medium-term.

Affordable Housing

	2012	2011	Change
Revenue	**£202m**	£228m	-11%
Operating profit*	**£7.5m**	£8.3m	-10%
Margin	**3.7%**	3.6%	
Forward order book	**£1.4bn**	£1.5bn	

Growing portfolio of mixed-tenure sites

For the period, Affordable Housing delivered an operating profit of £7.5m (2011: £8.3m), on revenue of £202m (2011: £228m), with operating profit firm at 3.7% (2011: 3.6%). Increasingly the market is being driven by mixed-tenure regeneration projects and the division has increased its investment in regeneration through growing its portfolio of active mixed-tenure sites. The division continues to offer its flexible partnering approach to help clients overcome funding gaps to meet the critical national need for mixed-tenure affordable housing. In the first half of the year it has signed contracts with Southampton City Council for three major estate regeneration projects, valued at £28m, that will deliver more than 200 mixed-tenure homes over a five-year construction programme.

Opportunities to capitalise on its expertise in the design and construction of new homes are being impacted by Government cuts in housing funding in the short-term. However, opportunities still exist and as the division continues to win contracts such as the £6m, 68-home development for social and affordable rent for Parkway Green Housing Trust in south Manchester. Affordable Housing has also further strengthened its partnership with Birmingham City Council's Birmingham Municipal Housing Trust having been awarded a place on all three lots of its three-year New Building Housing Contractor Framework and the division has already been awarded its first project within this framework.

Housing sales continue to be constrained by the lack of mortgage availability for first-time buyers. The division has a variety of initiatives to support sales, especially to first-time buyers, and it is working to source land for registered social landlord partners to assist in the delivery of new homes.

The repairs market is challenging and the division is identifying opportunities where it can consolidate its market-leading position and leverage its increased scope and scale of its response maintenance capabilities since the acquisition of Connaught in 2010. The division is focusing on opportunities especially in London and the South East where the larger social housing providers are located. The award of a ten-year, £50m repairs contract by Accord Group, one of the Midlands' largest housing associations, further underpins Affordable Housing's ability to deliver first class maintenance and repair services across a wide area. The contract will involve refurbishment and maintenance work to empty properties and other major works, as well as day-to-day repairs and a 24-hour a day reactive repairs service.

The Decent Homes programme is still continuing to offer refurbishment opportunities with social housing providers in England and Affordable Housing is also targeting providers in Wales where the market is growing. The division has recently been awarded a circa £6m contract to carry out improvement work by First Choice Homes Oldham as part of its £149m home improvements programme. In Scotland, Affordable Housing's focus on long-term relationships has been rewarded with the appointment by West Dunbartonshire Council to a three-year £12m framework to upgrade low- and medium-rise blocks of flats.

Demanding market conditions to continue

In the medium-term the division does not anticipate any major change from current demanding market conditions. With its order book stable at £1.4bn (2011: £1.5bn), Affordable Housing's leading position combined with its long-term partnerships and full service national offering means it is well positioned given the current economic climate. The national demand for affordable housing, the need to maintain and refurbish old housing stock and the division's ability to help clients overcome funding gaps will all play to its strengths.

Urban Regeneration

	2012	2011	Change
Revenue	**£23m**	£19m	+21%
Operating profit*	**£1.5m**	£1.0m	+50%
Margin	**6.5%**	5.2%	
Regeneration pipeline	**£1.6bn**	£1.4bn	

Increase in activity

With revenue at £23m (2011: £19m), Urban Regeneration has delivered an increased operating profit of £1.5m (2011: £1.0m) driven by a modest increase in year-on-year activity. In line with the Group's strategy to increase its focus on regeneration, the division continues to identify opportunities to work in long-term partnerships with private and public sector partners, unlocking land values for clients and playing a leading role in regenerating the physical, social and economic fabric of deprived areas throughout the country. With barriers to entry high, the skill sets required to maximise opportunities within this sector are a perfect fit for Urban Regeneration's expertise.

Progress made across the portfolio

Success is measured at different stages both on and off site throughout the long-term regeneration lifecycle and the division has reached significant milestones within its £1.6bn development pipeline that comprises over 30 active projects. Over the past six months planning consents have been secured on five of its major schemes.

On-site construction work is currently valued at £102m (2011: £110m) including the £7m construction contract with the Affordable Housing division, delivering the first phase of 50 residential units at Northshore, Stockton-upon-Tees. Two new construction contracts have been awarded at the Swindon town centre scheme and the division anticipates signing new construction contracts at Blackpool, Smithfield, Lingley Mere, Logic Leeds, Northshore and Canning Town over the next six months.

Major occupiers secured in the period include the leasing of a 75,000 sq ft distribution centre at Eurocentral in Scotland to Stobarts and 14,155 sq ft of Grade A space on the top floor of No. 4 St. Paul's Square in Liverpool to Spanish banking group, Santander, on a ten-year lease.

With regard to house sales, 83 residential units have been sold across the division's portfolio to date this year. In Swindon town centre, the multi-storey car park has been pre-sold to the council and a block of 45 sheltered housing units sold to the housing, regeneration and social investment agency, GreenSquare. The division has also sold land with planning consent at Washington in Sunderland.

The division has made significant progress on converting its £0.6bn of major new schemes, currently at preferred developer status, into contracted agreements. It is poised to convert three out of the four schemes early in the second half of this year and anticipates conversion of the fourth by year end.

Well positioned for the future

Overall, Urban Regeneration is pleased with the progress achieved so far this year and its £1.6bn (2011: £1.4bn) regeneration pipeline, with a further £0.6bn at preferred developer stage, underpins its confidence that the division is well positioned for the future.

Investments

	2012	2011	Change
Directors' portfolio valuation	**£56m**	£42m	+33%
Operating result*	**£1.3m**	(£2.1m)	-162%
Regeneration pipeline	**£0.2bn**	£0.4bn	

Realised mature investments

For the period, the Investments division recorded an operating profit of £1.3m (2011: loss of £2.1m), on revenue of £1m (2011: £1m). This result includes the division's share of operating profit of equity accounted joint ventures of £4.1m (2011: £0.6m). At 30 June 2011, the directors' valuation of the investment portfolio was £56m (2011: £42m) using discount rates of 7-9% (post-tax).

The disposal of its £3.8m interest in the Dorset Fire & Rescue PFI is in line with the divisional strategy to realise investments as they mature on completion of construction in order to recycle capital into new projects and grow its portfolio to provide the Group with a sustainable return on capital investment. Subsequent to the period end, the division also sold its medical properties interests for £24m. Further information is in Note 14 to the condensed consolidated financial statement.

Progress with long-term projects

One of Investments' strategic objectives is to identify prime construction opportunities for other Group divisions, as was demonstrated during the first half of the year with financial close being reached on South Northamptonshire Council's £38m Towcester Regeneration project. The division will deliver civic and housing in partnership with both the Affordable Housing and Construction and Infrastructure divisions and the scheme is currently proceeding through planning.

Other long-term projects within Investments' portfolio are all progressing well. The £95m Tayside Acute Adult Mental Health Developments scheme in Scotland has been successfully completed, delivered through the integrated capability of the Group with design and construction services provided by Construction and Infrastructure.

The first in a series of regeneration projects to be undertaken within the 20-year Bournemouth Town Centre Vision LABV scheme has had its plans approved for a core site, Leyton Mount. The project comprises a five-storey apartment development with a commercial unit and aims to provide physical, social and economic benefits to an underused area of the town. The Construction and Infrastructure and Affordable Housing divisions are working alongside the division on this first site.

Focus on helping clients realise value from their assets

Investments is confident it will continue to create value for the Group. Projects within its £0.2bn (2011: £0.4bn) regeneration pipeline are progressing well. The division continues to identify new opportunities to help its public sector partners overcome on-going constraints on the public purse and realise economic potential from under-utilised sites within their asset portfolios.

Financial review

Revenue for the period was £1.00bn (2011: £1.09bn), a decrease of 8% on the same period last year. The decrease arose due to reductions in revenue in Fit Out, Affordable Housing and Construction and Infrastructure, offset by a small increase in revenue in Urban Regeneration. Underlying operating profit prior to the amortisation of intangible assets and non-recurring items was £20.8m (2011: £19.6m). Operating profit margins were slightly higher, with Construction and Infrastructure 1.5% (2011: 1.5%), Affordable Housing 3.7% (2011: 3.6%) and Fit Out 2.9% (2011: 2.7%) reflecting the highly competitive market countered by operational discipline. Investments' operating profit was £1.3m (2011: loss of £2.1m) reflecting the profit on sale of the Dorset Fire & Rescue PFI Project and increased share of results of joint ventures.

Net finance expense for the period was £0.5m (2011: expense of £0.1m) reflecting the move to a net debt position compared with a net cash position last year. Profit before tax, amortisation of intangible assets and non-recurring items was £20.3m (2011: £19.5m). Income tax expense was increased at £3.6m (2011: £1.8m) as the 2011 tax charge included the favourable result of the Group resolving its discussions with HMRC concerning corporation tax matters which arose following the acquisition of certain businesses and assets from Amec in 2007. The underlying tax rate has fallen in line with the reduced statutory tax rate.

The Group has moved into a position of net debt. Net debt at 30 June 2012 was £12m (31 December 2011: net cash £65m) and average net debt for the period was £36m (2011: net cash £43m.) The average net debt compared with the average net cash in the corresponding period in 2011 is mainly due to the increasing investment in the Group's regeneration activities as well as reduced levels of cash generated from its construction businesses. Net cash outflow from operating activities at £104.4m (2011: outflow of £66.8m) reflected a significant increase in working capital in the period. The principal reasons for this increase were investment in receivables in Construction and Infrastructure and Fit Out and the unwinding of working capital following the 2011 year-end. It is expected that cash will inflow from reducing the level of working capital in the second half of the year. In addition other significant cashflows were capital expenditure of £1.9m (2011: £3.9m) and dividends paid of £12.7m (2011: £12.7m). Overall the net decrease in cash and cash equivalents was £120.9m (2011: decrease of £83.7m). The Group has £110m of committed bank facilities which mature in September 2015.

Post balance sheet events

As discussed in note 14, on 20 July 2012 the Group sold its NHS LIFT and medical properties interests in Community Solutions Investment Partners Limited and CSPC (3PD) Limited. The total consideration received by the Group was £23.9m. As part of the transaction, the Group also acquired the 50% shareholding in Community Solutions Management Services Limited and Community Solutions Partnerships Solutions Limited held by its joint-venture partner, Barclays European Infrastructure Fund II LP. The assets and liabilities acquired and the goodwill arising are not material to the Group.

Sustainability update

The Group continues to make sustainability a key priority through its Six Total Commitments. Progress is updated regularly through the Group's online sustainability report which can be viewed at www.morgansindall.com/sustainability.

We passed our CEMARS (Certified Emissions Management and Reduction Scheme) audit in May this year. Part of the audit process involved verification of the Group's CO2 emissions produced in 2011. In our Annual Report we reported an estimate of 70,800 tonnes and the actual figure was 56,812 tonnes, a significant reduction of 24% on 2010. By being more efficient users of energy, not only does the carbon footprint of the Group reduce, it also has direct benefits in terms of profitability, particularly now that the CRC Energy Efficiency Scheme is operational.

We remain committed to drive improvement across the Group and to make a positive contribution to the people we work with, and the communities we operate within and to minimise the impact we have on the environment.

Principal risks and uncertainties

The principal risks and uncertainties that the directors consider may have a material impact on the Group's performance in the remaining six months of the year are unchanged from those described in the Risk Review section on pages 18 to 21 of the Group's most recent Annual Report and Accounts. These risks are:

- Market and economic environment – the market sectors in which the Group operates are affected to varying degrees by general macroeconomic conditions and changes in Government spending priorities. The Group is particularly focussed at present on managing the impact of the challenging economic conditions, changes in Government spending and the increasing emphasis on infrastructure investment.
- Sustainability – The Group's health, safety and environmental ('HSE') performance and business conduct affects employees, subcontractors and the public and, in turn, can affect its reputation and commercial performance.
- Contractual risks – The Group undertakes several hundred contracts each year and it is important that contractual terms reflect risks arising from the nature and complexity of the works and the duration of the contract.
- Counterparty and liquidity risk – The terms on which the Group trades with counterparties affect its liquidity. Without sufficient liquidity, the Group's ability to meet its liabilities as they fall due would be compromised, which could ultimately lead to its failure to continue as a going concern.
- Acquisitions – The Group regularly identifies and evaluates potential acquisitions and it is important that acquisitions deliver the planned benefits.

The directors have considered these risks in the context of the current economic conditions in the Eurozone. They are satisfied that the Group does not have significant direct exposure to the Eurozone as it only operates in UK markets and its financing arrangements are with UK financial institutions.

Going concern

As stated in note 3 to the condensed financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Forward looking statements

This half year report has been prepared solely to assist shareholders in assessing the strategies of the Board and in gauging their potential to succeed. It should not be relied on by any other party or for other purposes. Forward looking statements have been made by the directors in good faith using information available up until the day that they approved this half year report. Forward looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Condensed consolidated income statement
For the six months ended 30 June 2012

	Notes	**Six months to 30 June 2012 (unaudited) £m**	Six months to 30 June 2011 (unaudited) £m	Year ended 31 Dec 2011 (audited) £m
Continuing operations				
Revenue	6	**1,000.0**	1,086.7	2,226.6
Cost of sales		**(907.3)**	(985.8)	(2,010.9)
Gross profit		**92.7**	100.9	215.7
Amortisation of intangible assets	6	**(1.5)**	(1.9)	(3.9)
Non-recurring items	6	**-**	(0.9)	(1.4)
Other administrative expenses		**(75.6)**	(81.6)	(170.3)
Total administrative expenses		**(77.1)**	(84.4)	(175.6)
Share of net profit of equity accounted joint ventures	6	**3.7**	0.3	0.3
Other gains and losses		**-**	-	0.4
Profit from operations	6	**19.3**	16.8	40.8
Finance income		**1.3**	1.3	1.6
Finance costs		**(1.8)**	(1.4)	(2.4)
Net finance expense		**(0.5)**	(0.1)	(0.8)
Profit before tax	6	**18.8**	16.7	40.0
Tax	7	**(3.6)**	(1.8)	(7.2)
Profit for the period		**15.2**	14.9	32.8
Attributable to:				
Owners of the Company		**15.2**	14.9	32.9
Non-controlling interests		**-**	-	(0.1)
		15.2	14.9	32.8
Earnings per share				
From continuing operations:				
Basic	9	**35.8p**	35.1p	77.5p
Diluted	9	**34.6p**	34.5p	76.5p

There were no discontinued operations in either the current or comparative periods.

Condensed consolidated statement of comprehensive income
For the six months ended 30 June 2012

	Six months to 30 June 2012 (unaudited) £m	Six months to 30 June 2011 (unaudited) £m	Year ended 31 Dec 2011 (audited) £m
Profit for the period	**15.2**	14.9	32.8
Other comprehensive income/(expense):			
Deferred tax on defined benefit obligation	**-**	-	(0.1)
Movement on cash flow hedges in equity accounted joint ventures	**-**	0.6	(0.7)
Other movement on cash flow hedges	**-**	-	(0.2)
Other comprehensive income/(expense) for the period, net of income tax	**-**	0.6	(1.0)
Total comprehensive income for the period	**15.2**	15.5	31.8
Attributable to:			
Owners of the Company	**15.2**	15.5	31.9
Non-controlling interests	**-**	-	(0.1)
	15.2	15.5	31.8

Condensed consolidated balance sheet
At 30 June 2012

	Notes	**Six months to 30 June 2012 (unaudited) £m**	Six months to 30 June 2011 (unaudited) £m	Year ended 31 Dec 2011 (audited) £m
Non-current assets				
Goodwill		**214.1**	214.3	214.1
Other intangible assets		**11.0**	14.7	12.5
Property, plant and equipment		**20.5**	25.5	21.6
Investment property		**11.8**	8.1	11.1
Investments in equity accounted joint ventures		**44.3**	45.6	49.8
Investments		**0.4**	0.1	0.4
Shared equity loan receivables		**18.0**	15.7	17.6
		320.1	324.0	327.1
Current assets				
Inventories		**158.9**	157.7	146.0
Amounts due from construction contract customers		**241.2**	289.1	228.6
Trade and other receivables		**202.7**	226.9	186.5
Cash and cash equivalents		**35.9**	64.9	108.9
Non-current assets classified as held for sale	14	**14.3**	-	-
		653.0	738.6	670.0
Total assets		**973.1**	1,062.6	997.1
Current liabilities				
Trade and other payables		**(569.6)**	(708.8)	(620.9)
Amounts due to construction contract customers		**(56.8)**	(73.6)	(78.8)
Current tax liabilities		**(7.8)**	(9.0)	(8.7)
Finance lease liabilities		**(1.0)**	(1.4)	(0.8)
Borrowings	10	**(47.9)**	-	-
Provisions		**(4.2)**	(4.3)	(4.6)
		(687.3)	(797.1)	(713.8)
Net current liabilities		**(34.3)**	(58.5)	(43.8)
Non-current liabilities				
Trade and other payables		**(0.2)**	-	(0.3)
Finance lease liabilities		**(3.9)**	(5.1)	(4.3)
Retirement benefit obligation		**(1.0)**	(1.7)	(1.3)
Deferred tax liabilities		**(19.0)**	(16.6)	(19.8)
Provisions		**(22.8)**	(17.1)	(22.0)
		(46.9)	(40.5)	(47.7)
Total liabilities		**(734.2)**	(837.6)	(761.5)
Net assets		**238.9**	225.0	235.6
Equity				
Share capital		**2.2**	2.2	2.2
Share premium account		**26.7**	26.7	26.7
Capital redemption reserve		**0.6**	0.6	0.6
Own shares		**(5.5)**	(5.9)	(5.8)
Hedging reserve	14	**(4.0)**	(2.5)	(4.0)
Retained earnings		**219.2**	204.1	216.2
Equity attributable to owners of the Company		**239.2**	225.2	235.9
Non-controlling interests		**(0.3)**	(0.2)	(0.3)
Total equity		**238.9**	225.0	235.6

Condensed consolidated cash flow statement
For the six months ended 30 June 2012

	Notes	**Six months to 30 June 2012 (unaudited) £m**	Six months to 30 June 2011 (unaudited) £m	Year ended 31 Dec 2011 (audited) £m
Net cash outflow from operating activities	11	**(104.4)**	(66.8)	(11.8)
Cash flows from investing activities				
Interest received		**1.4**	1.1	1.4
Dividend from joint ventures		**0.4**	-	0.3
Proceeds on disposal of property, plant and equipment		**0.4**	0.5	4.6
Purchases of property, plant and equipment		**(1.9)**	(3.9)	(5.4)
Payments to acquire interests in joint ventures		**-**	(0.2)	(0.1)
Investment in joint ventures		**(7.4)**	(0.1)	(5.9)
Proceeds on disposal of interests in joint ventures		**3.8**	-	-
Repayment of investment in joint venture		**-**	0.2	-
Payment to acquire other investment		**-**	-	(0.3)
Payment for the acquisition of subsidiaries and other businesses		**-**	(0.4)	(0.4)
Net cash outflow from investing activities		**(3.3)**	(2.8)	(5.8)
Cash flows from financing activities				
Dividends paid	8	**(12.7)**	(12.7)	(17.8)
Repayments of obligations under finance leases		**(0.5)**	(1.4)	(4.3)
Net cash outflow from financing activities		**(13.2)**	(14.1)	(22.1)
Net decrease in cash and cash equivalents		**(120.9)**	(83.7)	(39.7)
Cash and cash equivalents at the beginning of the period		**108.9**	148.6	148.6
Cash and cash equivalents at the end of the period				
Bank balances and cash net of short term borrowings		**(12.0)**	64.9	108.9

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2012

	Attributable to owners of the Company								
	Share capital	Share premium account	Capital redemption reserve	Reserve for own shares held	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2012	2.2	26.7	0.6	(5.8)	(4.0)	216.2	235.9	(0.3)	235.6
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	15.2	15.2	-	15.2
Total comprehensive income for the year, net of income tax	**-**	**-**	**-**	**-**	**-**	**15.2**	**15.2**	**-**	**15.2**
Share-based payments	-	-	-	-	-	0.8	0.8	-	0.8
Exercise of share options	-	-	-	0.3	-	(0.3)	-	-	-
Dividends paid:									
Second interim dividend for 2011	-	-	-	-	-	(12.7)	(12.7)	-	(12.7)
Balance at 30 June 2012 (unaudited)	**2.2**	**26.7**	**0.6**	**(5.5)**	**(4.0)**	**219.2**	**239.2**	**(0.3)**	**238.9**

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2011

	Attributable to owners of the Company								
	Share capital	Share premium account	Capital redemption reserve	Reserve for own shares held	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2011	2.2	26.7	0.6	(5.9)	(3.1)	201.4	221.9	(0.2)	221.7
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	14.9	14.9	-	14.9
Other comprehensive income: Movement on cash flow hedges in equity accounted joint ventures	-	-	-	-	0.6	-	0.6	-	0.6
Total comprehensive income for the year, net of income tax	-	-	-	-	0.6	14.9	15.5	-	15.5
Share-based payments	-	-	-	-	-	0.5	0.5	-	0.5
Dividends paid:									
Final dividend for 2010	-	-	-	-	-	(12.7)	(12.7)	-	(12.7)
Balance at 30 June 2011 (unaudited)	2.2	26.7	0.6	(5.9)	(2.5)	204.1	225.2	(0.2)	225.0

Condensed consolidated statement of changes in equity

For the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital	Share premium account	Capital redemption reserve	Reserve for own shares held	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2011	2.2	26.7	0.6	(5.9)	(3.1)	201.4	221.9	(0.2)	221.7
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	32.9	32.9	(0.1)	32.8
Other comprehensive income:									
Deferred tax on defined benefit obligation	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Movement on cash flow hedges in equity accounted joint ventures	-	-	-	-	(0.7)	-	(0.7)	-	(0.7)
Other movement on cash flow hedges	-	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Total comprehensive income for the year, net of income tax	-	-	-	-	(0.9)	32.8	31.9	(0.1)	31.8
Share-based payments	-	-	-	-	-	0.5	0.5	-	0.5
Exercise of share options	-	-	-	0.1	-	(0.1)	-	-	-
Movement on deferred tax asset on share-based payments	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Dividends paid:									
Final dividend for 2010	-	-	-	-	-	(12.7)	(12.7)	-	(12.7)
Interim dividend for 2011	-	-	-	-	-	(5.1)	(5.1)	-	(5.1)
Balance at 31 December 2011	2.2	26.7	0.6	(5.8)	(4.0)	216.2	235.9	(0.3)	235.6

Share premium account

The share premium account represents the difference between the fair value of consideration received and the nominal value of the shares issued.

Capital redemption reserve

The capital redemption reserve was created on the redemption of preference shares in 2003.

Reserve for own shares held

The shares are held as ‘treasury shares’ and represent the cost to Morgan Sindall Group plc of shares purchased in the market and held by the Morgan Sindall Employee Benefit Trust (the 'Trust') to satisfy options under the Group’s share incentive schemes.

The number of shares held by the Trust at 30 June 2012 was 729,688 (2011: 776,555).

Hedging reserve

Under cash flow hedge accounting, movements on the effective portion of hedges are recognised through the hedging reserve, whilst any ineffectiveness is taken to the income statement.

Notes to the condensed consolidated financial statements
For the six months ended 30 June 2012

1 General information

The financial information set out in this half year report does not constitute the company's statutory accounts for the year ended 31 December 2011. A copy of the statutory accounts for that year was delivered to the Registrar of Companies. The auditor reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

This half year report was prepared solely to assist shareholders in assessing the strategies of the Board and in gauging their potential to succeed. It should not be relied on by any other party or for other purposes. Forward looking statements have been made by the directors in good faith based on the information available to them up to the time of their approval of this half year report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business factors, underlying any such forward looking information.

While the financial information included in this half year report was prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (‘IFRS’), this half year report does not itself contain sufficient information to comply with IFRS.

This half year report has not been audited or reviewed by the auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information. Figures as at 30 June 2012 and 2011 and for the six months ended 30 June 2012 and 2011 are therefore unaudited.

2 Basis of preparation

The annual financial statements of Morgan Sindall Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements included in this half year report were prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’, as adopted by the European Union.

3 Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

4 Accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated financial statements as applied in the Group’s latest annual audited financial statements.

5 Seasonality

The Group’s activities are generally not subject to significant seasonal variation.

6 Business segments

For management purposes, the Group is organised into five operating divisions: Construction and Infrastructure, Fit Out, Affordable Housing, Urban Regeneration and Investments. The divisions’ activities are as follows:

- Construction and Infrastructure: offers national design, construction and infrastructure services to private and public sector customers. The division works on projects of all sizes across a broad range of sectors including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport, waste and water.
- Fit Out: specialises in fit out and refurbishment projects in the office, education, retail, technology and leisure sectors through Overbury as a national fit out company operating through multiple procurement routes and Morgan Lovell, specialising in the design and build of offices in London and the South.

- Affordable Housing: specialises in the design and build, refurbishment, maintenance, regeneration and repair of homes and communities across the UK. The division operates a full mixed-tenure model creating homes for rent, shared ownership and open market sale.
- Urban Regeneration: works with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal through the delivery of mixed-use projects. Typically projects create commercial, retail, residential, leisure and public realm facilities.
- Investments: facilitates project development, primarily in the public sector, by providing flexible financing solutions and development expertise. The division covers a wide range of markets including urban regeneration, education, healthcare, housing, emergency services, defence and infrastructure.

Group Activities represents costs and income arising from corporate activities which cannot be allocated to the operating segments. These include costs such as treasury management, corporate tax coordination, insurance management, pension administration and company secretarial and legal services. The divisions are the basis on which the Group reports its segment information. Segment information about the Group's continuing operations is presented below:

Six months to 30 June 2012

	Construction and Infrastructure	Fit Out	Affordable Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
Revenue	£m	£m	£m	£m	£m	£m	£m	£m
Revenue: external	582.9	191.1	202.0	23.1	0.9	-	-	1,000.0
Revenue: inter-segment	-	6.2	0.6	-	-	-	(6.8)	-
Profit/(loss)								
Included in profit/(loss) below: Share of results of associates and joint ventures after tax	-	-	(0.1)	(0.3)	4.1	-	-	3.7
Profit/(loss) from operations before amortisation and non-recurring items[1]	8.5	5.5	7.5	1.5	1.3	(3.5)	-	20.8
Amortisation of intangible assets	-	-	(0.4)	(1.1)	-	-	-	(1.5)
Profit/(loss) from operations	8.5	5.5	7.1	0.4	1.3	(3.5)	-	19.3
Net finance expense								(0.5)
Profit before income tax expense								18.8
Balance sheet	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	490.4	79.1	268.8	86.3	39.9	8.6	-	973.1

[1]There were no non-recurring items during the six months to 30 June 2012.

During the six months to 30 June 2012, six months to 30 June 2011 and the year ended 31 December 2011, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

Notes to the condensed consolidated financial statements
For the six months ended 30 June 2012

Six months to 30 June 2011

Revenue	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
Revenue: external	616.9	222.3	227.9	19.1	0.5	-	-	1,086.7
Revenue: inter-segment	-	-	4.6	-	-	-	(4.6)	-
Profit/(loss)								
Included in profit/(loss) below: Share of results of associates and joint ventures after tax	-	-	(0.1)	(0.2)	0.6	-	-	0.3
Profit/(loss) from operations before amortisation and non-recurring items	9.5	6.1	8.3	1.0	(2.1)	(3.2)	-	19.6
Amortisation of intangible assets	-	-	(0.4)	(1.5)	-	-	-	(1.9)
Non-recurring items	(0.9)	-	-	-	-	-	-	(0.9)
Profit/(loss) from operations	8.6	6.1	7.9	(0.5)	(2.1)	(3.2)	-	16.8
Net finance expense								(0.1)
Profit before income tax expense								16.7
Balance sheet	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	609.4	115.9	272.4	99.7	14.9	(49.7)		1,062.6

Year ended 31 December 2011

Revenue	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
Revenue: external	1,267.8	438.0	462.3	56.6	1.9	-	-	2,226.6
Revenue: inter-segment	-	7.0	3.2	-	-	-	(10.2)	-
Profit/(loss)								
Included in profit/(loss) below: Share of results of associates and joint ventures after tax	-	-	(0.1)	(1.2)	1.6	-	-	0.3
Profit/(loss) from operations before amortisation and non-recurring items	21.1	12.4	18.5	3.9	(3.9)	(5.9)	-	46.1
Amortisation of intangible assets	-	-	(0.9)	(3.0)	-	-	-	(3.9)
Non-recurring items	(1.4)	-	-	-	-	-	-	(1.4)
Profit/(loss) from operations	19.7	12.4	17.6	0.9	(3.9)	(5.9)	-	40.8
Net finance expense								(0.8)
Profit before income tax expense								40.0
Balance sheet	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	587.3	105.2	272.2	83.6	12.0	(63.2)	-	997.1

7 Tax

Income tax for the six month period is charged at 24% (2011: 27%), being the estimated annual effective tax rate expected for the full financial year, applied to profit before tax excluding the Group's share of net profit of equity accounted joint ventures for the six month period (which are stated net of income tax). The estimated rate is lower in the current year reflecting lower rates of corporation tax and their consequent impact on deferred tax.

8 Dividends

Amounts recognised as distributions to equity holders in the period:	**Six months to 30 June 2012 £m**	Six months to 30 June 2011 £m	Year ended 31 Dec 2011 £m
Final dividend for the year ended 31 December 2011 of 30.0p (2010: second interim dividend 30.0p) per share	**12.7**	12.7	12.7
Interim dividend for the year ended 31 December 2011 of 12.0p (2010: 12.0p) per share	**-**	-	5.1
	12.7	12.7	17.8

Proposed dividend:	**Six months to 30 June 2012 £m**	Six months to 30 June 2011 £m	Year ended 31 Dec 2011 £m
Final dividend for the year ended 31 December 2011 of 30.0p	**-**	**-**	12.7
Interim dividend for the period to 30 June 2012 of 12.0p (2011: 12.0p) per share	**5.1**	5.1	-

The proposed interim dividend was approved by the Board on 6 August 2012 and was not included as a liability at 30 June 2012.

The interim dividend of 12.0p (2011: 12.0p) per share will be paid on 26 October 2012 to shareholders on the register at 28 September 2012.

The ex-dividend date will be 26 September 2012.

9 Earnings per share

There are no discontinued operations in either the current or comparative periods.

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

Earnings	**Six months to 30 June 2012 £m**	Six months to 30 June 2011 £m	Year end 31 Dec 2011 £m
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to owners of the Company	**15.2**	14.9	32.9
Add back:			
amortisation expense	**1.5**	1.9	3.9
non-recurring items after tax	**-**	0.7	1.0
Deduct:			
non recurring credit to tax charge	**-**	(2.6)	(2.8)
Earnings for the purposes of adjusted basic and dilutive earnings per share	**16.7**	14.9	35.0

Number of shares	**30 June 2012 No. '000s**	30 June 2011 No. '000s	31 Dec 2011 No. '000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	**42,490**	42,425	42,442
Effect of dilutive potential ordinary shares:			
Share options	**524**	262	204
Conditional shares not vested	**855**	522	357
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**43,869**	43,209	43,003

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the period that the options were outstanding. The weighted average share price for the period was £6.59 (2011: £6.30).

Earnings per share as calculated in accordance with IAS 33, 'Earnings per Share' are disclosed below:

	Six months to 30 June 2012	Six months to 30 June 2011	Year ended 31 Dec 2011
Basic earnings per share	**35.8p**	35.1p	77.5p
Diluted earnings per share	**34.6p**	34.5p	76.5p

Earnings per share adjusted for amortisation expense and non-recurring items:

	Six months to 30 June 2012	Six months to 30 June 2011	Year ended 31 Dec 2011
Basic earnings per share adjusted for amortisation expense and non-recurring items	**39.3p**	35.1p	82.5p
Diluted earnings per share adjusted for amortisation expense and non-recurring items	**38.1p**	34.5p	81.4p

A total of 1,034,265 share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 30 June 2012 (2011: 2,311,976).

Notes to the condensed consolidated financial statements
For the six months ended 30 June 2012

10 Borrowings

Short term borrowings of £47.9m were drawn down under the Group's existing loan facilities.

The Group has committed banking facilities of £110m extending to September 2015.

11 Cash flow from operating activities

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year ended 31 Dec 2011 £m
Profit from operations for the period	**19.3**	16.8	40.8
Adjusted for:			
Amortisation of fixed life intangible assets	**1.5**	1.9	3.9
Share of net profit of equity accounted joint ventures	**(3.7)**	(0.3)	(0.3)
Depreciation of property, plant and equipment	**3.0**	5.7	9.5
Expense in respect of share options	**0.8**	0.5	0.5
Defined benefit obligation payment	**(0.3)**	(0.3)	(0.7)
Defined benefit obligation charge	**-**	0.1	0.1
Net gain from bargain purchase of subsidiary previously			
Gain on disposal of interests in joint ventures	**(1.8)**	-	-
Gain on disposal of property, plant and equipment	**(0.2)**	-	(1.0)
Increase in investment properties	**(0.8)**	-	(7.0)
Revaluation of investment properties	**-**	-	0.2
Increase in shared equity loan receivables	**(0.4)**	(1.8)	(4.9)
Movement in fair value of shared equity loan receivables	**-**	-	0.9
Increase in non-current provisions	**0.8**	1.7	6.6
Operating cash flows before movements in working capital	**18.2**	24.3	48.6
Increase in inventories	**(12.9)**	(19.2)	(3.2)
Increase in receivables	**(28.9)**	(108.2)	(7.3)
(Decrease)/increase in payables and short-term provisions	**(73.8)**	41.2	(41.1)
Movements in working capital	**(115.6)**	(86.2)	(51.6)
Cash utilised in operations	**(97.4)**	(61.9)	(3.0)
Income taxes paid	**(5.3)**	(3.6)	(6.8)
Interest paid	**(1.7)**	(1.3)	(2.0)
Net cash outflow from operating activities	**(104.4)**	(66.8)	(11.8)

Additions to leased property, plant and equipment during the year amounting to £0.2m (2011: £1.2m) 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, net of short-term borrowings.

12 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

Trading transactions

During the period, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group. Transactions and amounts owed at the period end are as follows:

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year ended 31 Dec 2011 £m
Provision of goods and services to related parties	**24.4**	34.1	77.3
Net amounts owed (to)/by related parties	**(3.3)**	7.6	2.8

Directors' material interests in contracts with the Company

No director held any material interest in any contract with the Company or any Group company in the period or in the subsequent period to 6 August 2012.

13 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

14 Non-current assets held for sale and post balance sheet events

On 20 July 2012 the Group sold its NHS LIFT and medical properties interests in Community Solutions Investment Partners Limited ('CSIP') and CSPC (3PD) Limited ('CSPC (3PD)'), both equity accounted joint ventures in which the Group held a 50% share. At 30 June 2012 negotiations with the purchasers were well advanced and the sale was expected to be completed within 12 months. Accordingly, the Group's interest in the joint venture has been classified as held for sale, presented separately in the balance sheet. The proceeds of the disposal totalled £23.9m and exceeded the book values. Accordingly, no impairment losses have been recognised on the classification of these operations as held for sale.

The Group's share of the results of the joint ventures are included within the Investments division in the segmental analysis in note 6 as they do not meet the criteria to be included in discontinued operations.

As part of the transaction, the Group also acquired the 50% shareholdings in Community Solutions Management Services Limited and Community Solutions Partnerships Solutions Limited held by its joint-venture partner, Barclays European Infrastructure Fund II LP. These two companies are now wholly owned subsidiaries and are no longer accounted for using the equity method. The assets and liabilities acquired and the goodwill arising are not material to the Group.

It is also noted that the hedging reserve includes an amount of £2.1m relating to the non-current assets held for sale. This represents amounts which were previously recognised in other comprehensive income and have accumulated in equity.

	Six months to 30 June 2012 £m
CSIP	**7.8**
CSPC (3PD)	**6.5**
	14.3

Responsibility statement

The directors confirm that to the best of their knowledge:

(a) the condensed consolidated financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union;

(b) the half year report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the half year report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties’ transactions and changes therein)

By order of the Board

Paul Smith **Chief Executive**	**David Mulligan** **Finance Director**

6 August 2012

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