

MORGAN SINDALL

Morgan Sindall Group plc Preliminary Results 2010



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Overview

- Group delivered a robust performance underpinned by breadth of capabilities and spread of activities
- Strategic acquisitions created a market leading integrated maintenance business at Affordable Housing
- Merger of Construction and Infrastructure Services divisions to create integrated offering for key clients and major projects
- Continue to streamline operations
- Innovative construction approaches in response to changes in Government funding
- Group in strong financial shape

2010 Financial Highlights

- Adjusted profit before tax¹ at £51.3m (2009: £51.5m) on revenue of £2.1bn (2009: £2.2bn)
- Profit before tax at £40.7m (2009: £44.7m)
- Adjusted earnings per share¹ of 92.9p (2009: 93.9p)
- Total dividend held at 42.0p (2009: 42.0p)
- Strong cash performance
 - Net cash at 31 December 2010 of £149m (2009: £118m)
 - Average cash for the year £63m (2009: £31m)
 - £100m of undrawn, committed bank facilities in place to mid-2012

¹ Before amortisation of intangible assets (£5.5m) and non-recurring items (£5.1m)

2010 Financial Highlights

- Non-recurring items in year of £5.1m
 - £3.2m relating to reorganisation of Construction and Infrastructure Services divisions
 - £3.9m relating to maintenance acquisitions
 - £2.0m one-off gain linked to Muse's acquisition of partners' JV interests
- £21m of annualised cost savings realised (£59m over last 3 years)
- Order book at £3.6bn (2009: £3.2bn)

Financial Summary

£m	December 2010	December 2009
Revenue	2,102	2,214
Adjusted PBT ¹	51.3	51.5
Non-recurring items	(5.1)	-
Amortisation	(5.5)	(6.8)
Profit before tax	40.7	44.7
Income tax expense	(10.9)	(11.8)
Profit after tax	29.8	32.9
Adjusted EPS ¹	92.9p	93.9p
Total dividend per share	42.0p	42.0p

1 Before amortisation of intangible assets (£5.5m) and non-recurring items (£5.1m)

Balance Sheet

£m	December 2010	December 2009	YOY Movement
Intangible FA	229.8	201.0	+28.8
Tangible FA	27.8	31.3	-3.5
Investments (incl. Joint ventures)	49.8	52.1	-2.3
Shared equity loan receivables	13.9	9.0	+4.9
Inventories	141.1	141.2	-0.1
Other working capital	(360.0)	(316.3)	-43.7
Current and deferred tax	(27.4)	(23.5)	-3.9
Pension scheme	(1.9)	(3.2)	+1.3
Cash	148.6	117.7	+30.9
Net assets	221.7	209.3	+12.4

- Increase in intangible FA related to maintenance acquisitions
- Continued use of shared equity to drive open market house sales
- Current tax creditor at £30.6m (2009: £27.3m); £23.2m relating to provisional FV cost claim
- Tight control of working capital maintained
- Strong cash balances
- Defined benefit pension deficit of only £2m (2009:£3m)

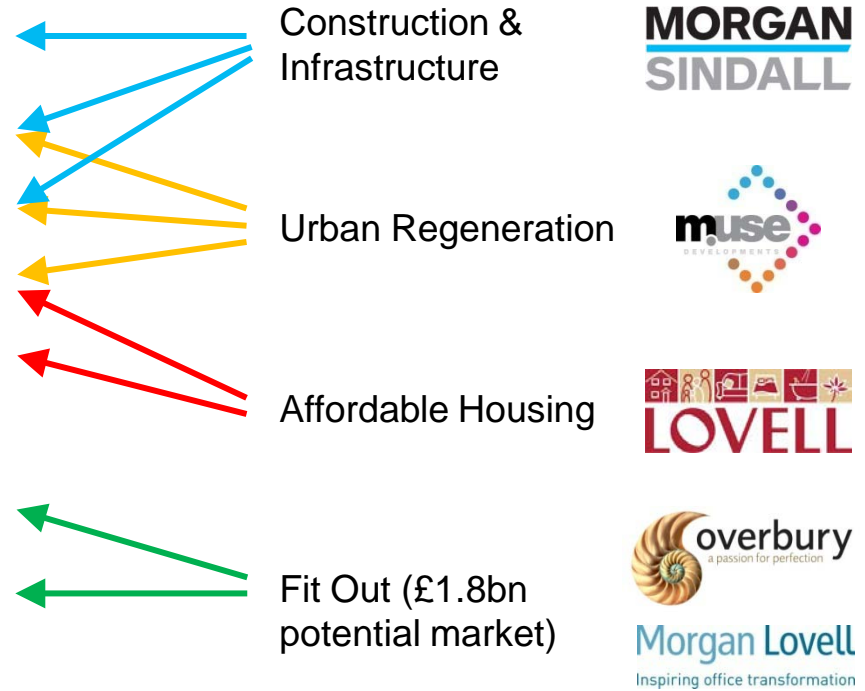
Cashflow

£m	Year to December 2010	Year to December 2009
Operating profit	41.8	43.7
Non-cash and other adjustments	6.2	6.7
Working capital movement	53.7	(31.3)
Net investment in PPE	(2.0)	(6.5)
Income tax	(6.4)	7.7
Dividends	(17.8)	(17.7)
Interest	(0.3)	1.6
Payment for acquisitions/JVs	(39.5)	(5.3)
Other cashflows	(4.8)	(1.5)
Net cashflow	30.9	(2.6)
Cash at beginning of period	117.7	120.3
Cash at end of period	148.6	117.7

- Average cash £63m (2009: £31m)
- Strong cash generation in the period driven by reduction in working capital
- Acquisition of Powerminster (£4.8m), Connaught (£28.0m), 3 JVs acquired (£2.4m), other investments in JVs (£4.3m)
- Five year operating profit to cash conversion of 113%

Market Overview

Market sectors	2010 est. £bn
Infrastructure	11.4
Private Industrial & Commercial	26.0
Public Non-Residential	12.9
Private Housing	11.9
Public Housing (incl R&M)	10.0
Private Housing R&M	9.8
Public Non-Residential R&M	6.9
Private Non-Residential R&M	10.5
Total Construction Market	99.4



Source: Experian, values at 2005 prices

Strategic and Operational Highlights

- Development of response and planned maintenance capability to create a market leading, full service offering at Affordable Housing
- Merger of Construction and Infrastructure Services divisions
- Further annualised savings realised of £21m on top of £38m realised in 2008-09
- Further development of Perfect Delivery underpins margin performance
- Forward order book increased to £3.6bn (2009: £3.2bn)

Segmental Analysis

£m	December 2010			December 2009		
	Revenue	Profit	Margin	Revenue	Profit	Margin
Construction & Infrastructure	1,250	26.9	2.2%	1,513	30.1	2.0%
Affordable Housing	387	16.1	4.2%	374	14.9	4.0%
Fit Out	415	14.8	3.6%	291	13.8	4.7%
Urban Regeneration	46	2.0	-	32	0.7	-
Investments	4	(3.3)	-	3	(3.0)	-
TOTAL REVENUE	2,102			2,214		
Group activities		(4.1)			(6.0)	
OPERATING PROFIT		52.4			50.5	
Interest		(1.1)			1.0	
Normalised PBTA		51.3			51.5	
Non-recurring items		(5.1)			-	
PBTA		46.2			51.5	

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M74 completion, Glasgow



Marylebone Station, London

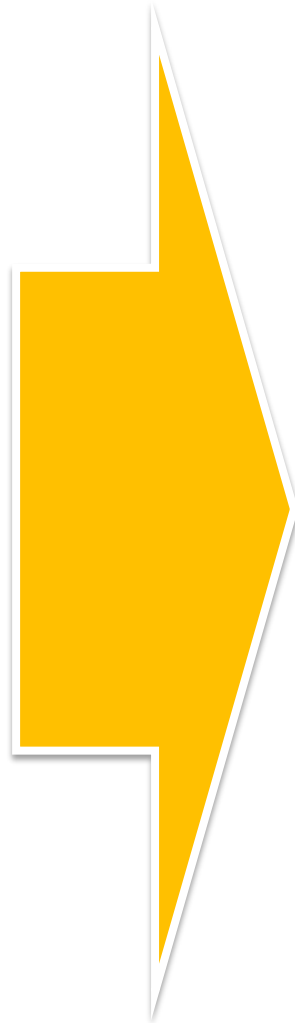
Construction & Infrastructure – Market & Trading Highlights

	Revenue			Adjusted Operating Profit		
	2010	2009	%	2010	2009	%
Construction	737	743		14.3	13.0	
Infrastructure	513	770		12.6	17.1	
Total	£1,250m	£1,513m	-16%	£26.9m	£30.1m	-11%

- Blended margin improved to 2.2% (2009: 2.0%)
- Construction margin to 1.9% (2009: 1.7%)
- Infrastructure margin at 2.5% (2009: 2.2%)
- Integration of two divisions during year; new brand launched
- One-off cost of integration of £3.2m; further annualised cost savings realised
- Secured major project opportunities

Construction & Infrastructure – Integrated Capabilities

Capabilities
Utilities Services
Tunnelling
Infrastructure
Construction
Professional Services



Sectors	2010 est. £bn	Trend
Water	2.9	↔
Gas	1.0	↑
Electric	1.3	↑
Waste		↑
Renewable energy		↑
Nuclear		↑
Road	3.7	↓
Rail	2.6	↑
Aviation	1.0	↑
Defence/other public	2.6	↓
Education	6.0	↓
Health	2.3	↓
Commercial/industrial	26.0	↑

Source: Experian, values at 2005 prices

Construction & Infrastructure – Outlook

- Public sector capex set to reduce 22% over next five years
- Infrastructure spending to increase over next five years
- Growth opportunities in gas, electric, renewable energy, nuclear, waste, rail, aviation and commercial/industrial
- Continue to drive Perfect Delivery
- Forward order book strengthened to £2.0bn (2009: £1.6bn)

Affordable Housing



River Clyde Homes, Port Glasgow, Scotland



Integrated maintenance expands

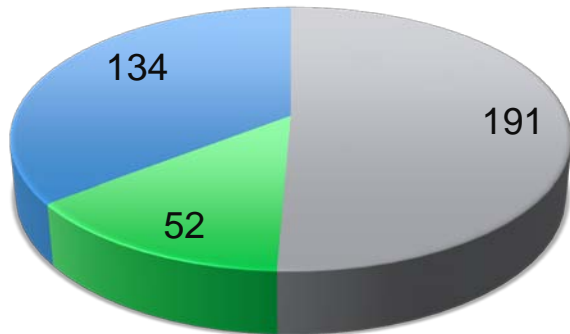
Affordable Housing – Market & Trading Highlights

Revenue			Adjusted Operating Profit		
2010	2009	%	2010	2009	%
£387m	£374m	+3%	£16.1m	£14.9m	+8%

- Expanded through Connaught acquisition to create full-service offering; response and planned maintenance, new build of social and affordable housing
- Secured first projects under HCA's Delivery Partner Panel
- Sold 338 open market units (2009: 476) at ASP of £141k (2009: £142k)
- Improved margin at 4.2% (2009: 4.0%)
- Continued to secure opportunities despite cancellation of social housing PFIs

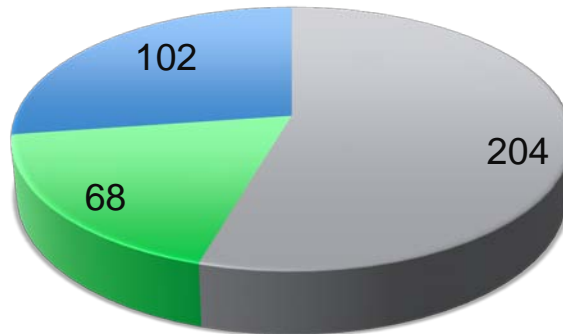
Affordable Housing – Market Sectors

2008



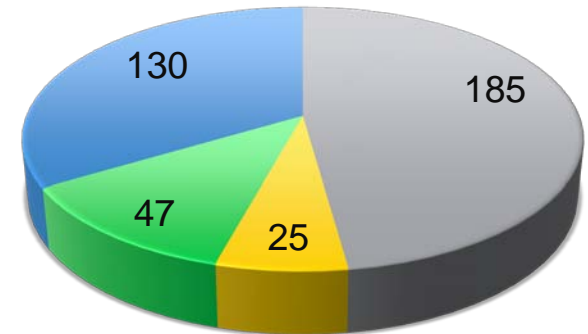
Revenue £377m

2009



Revenue £374m

2010



Revenue £387m

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

Affordable Housing – Connaught Update

Consideration	£28m
Contract FV adjustments	£11m
Other FV adjustments	£15m
	£54m
WIP/debt recovery	£28m
Goodwill/intangible asset	£26m

- Acquisition transformational for Lovell
- Creating new opportunities; 8 integrated maintenance frameworks, photo voltaic installations, new clients secured
- WIP and debt recovery ongoing; cash recovered to date £11m
- Provisional goodwill recognised of £22m plus intangible asset of £4m
- One-off integration and acquisition costs of £3.9m

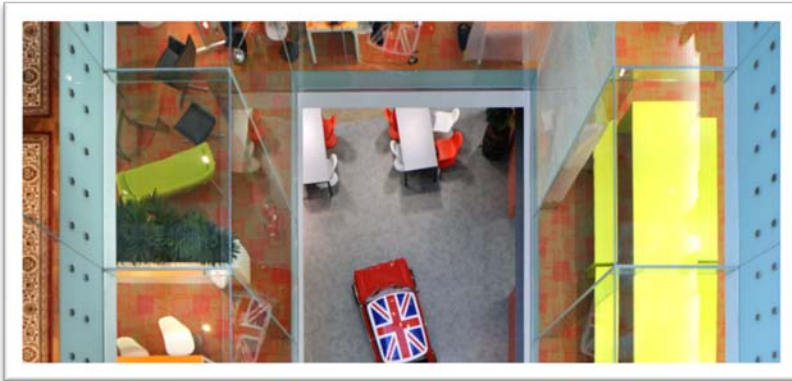
Affordable Housing – Outlook

- Full-service offering provides growth potential
- Remain cautious on open market recovery
- Continued outsourcing of maintenance
- More innovation for housing funding; mixed-tenure coming back to the fore
- Retrofit opportunities; Decent Homes 2
- Order book increased slightly to £1.5bn (2009: £1.3bn) due to impact of acquisitions



Morgan Lovell

Inspiring office transformation



Rackspace office, London



Queen's Theatre, London

Fit Out – Market & Trading Highlights

Revenue			Operating Profit		
2010	2009	%	2010	2009	%
£415m	£291m	+43%	£14.8m	£13.8m	+7%

- Market remained very competitive
- Recovery of demand for larger projects in financial services sector in London
- Maintained focus on profitable projects with appropriate risk profile rather than volume
- Margin tighter at 3.6% (2009: 4.7%)

Fit Out – Outlook

- Market expected to contract in 2011 with lack of newly developed office space, especially larger projects
- Opportunities in hotel sector pre-Olympics
- Improved forward order book at £180m (2009: £171m) but increased price pressure and pipeline of opportunities is weaker

Urban Regeneration



Doncaster Regeneration



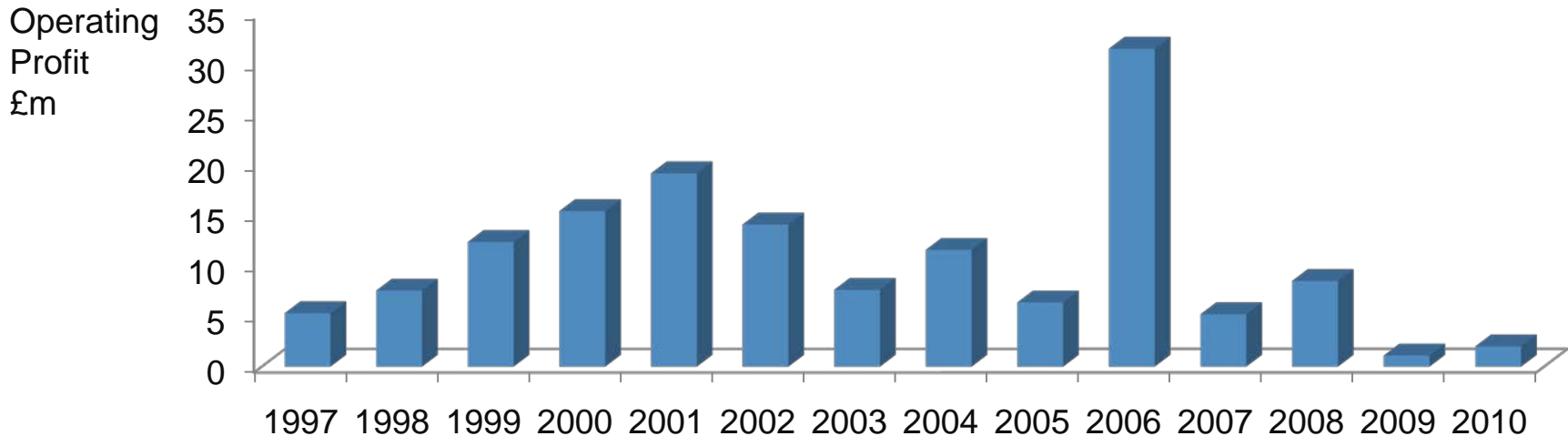
North Shore, Homezone Phase 1, Stockton-on-Tees

Urban Regeneration – Market & Trading Highlights

Revenue			Adjusted Operating Profit		
2010	2009	%	2010	2009	%
£46m	£32m	+44%	£2.0m	£0.7m	+186%

- Overall activity remains low as expected for this point in the cycle
- Transaction volumes have improved; creating opportunities
- Acquired partners' share in three joint ventures during year; £2.0m one-off gain in addition to operating profit of £2.0m
- Continue to progress schemes to ensure well positioned for market recovery
- Good performance given market conditions; residential schemes have performed reasonably well

Urban Regeneration – Historic Performance



- Return subdued in short term
- Longer-term returns over cycle
- Average return on capital employed 20% (1997 to 2010)
- Capital employed currently £67m (2009: £65m)

Urban Regeneration – Outlook

- Market expected to remain at a low level of activity
- Continue to move forward existing schemes
- Food retail, public sector and residential lead opportunities
- Quality of portfolio of development agreements remains excellent
- Long term pipeline remains healthy with share of development schemes at £1.4bn (2009: £1.4bn)

Investments



Wigan Life Centre



Hull BSF

Investments – Portfolio and Highlights

	Capital value £m	MS equity/loan stock £m
Health	292	4.7
Emergency Services	71	1.9
Roads	137	6.0
Community	368	13.9
Invested and committed to date ¹		26.5
Directors' valuation at discount rates (7-9%)		53.0

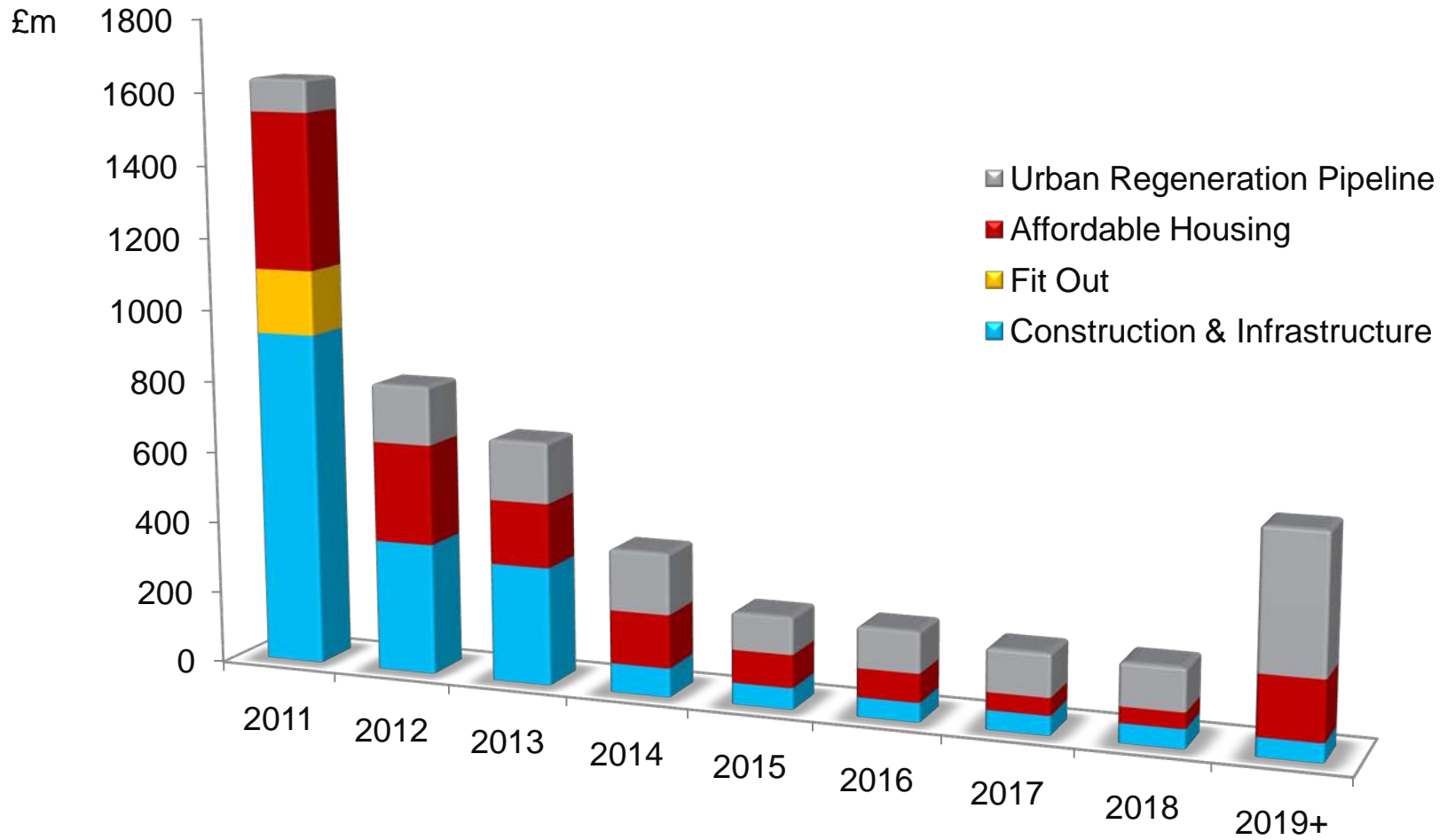
- Operating cost £4.1m (2009: £3.0m)
- Income from JVs £0.8m (2009: £nil)
- Financial close at Hull BSF, Tayside Mental Health PFI
- Preferred bidder at Bournemouth Regeneration (£300m+)
- Directors' portfolio valuation £53m (2009: £38m)

¹ Includes £12m of committed equity and loan stock

Investments – Outlook

- Post-PFI need for more innovation in funding of construction projects
- Interest in Local Asset Backed Vehicle (“LABV”) partnership model
- Preferred bidder
 - Bournemouth Regeneration (£300m+)
- Shortlisted opportunities
 - 2 waste
 - 3 leisure
 - 2 extra-care
 - 1 education and 1 regeneration

Order Book Profile



Summary – Outlook & Prospects

- Market remains challenging; Fit Out tough in short term
- Financial strength, spread of activities and breadth of capabilities provides resilience in competitive market
- Operational focus will continue; proven ability to manage costs tightly as required
- Strategic developments create foundation for expansion in certain areas
- Opportunities for more innovative construction solutions
- Forward order book at £3.6bn (2009: £3.2bn)

Notes

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