MORGAN SINDALL GROUP

Half-year Report

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Morgan Sindall Group PLC
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MORGAN SINDALL GROUP PLC
('Morgan Sindall' or the 'Group')

The Construction & Regeneration Group

RESULTS FOR THE HALF YEAR (HY) ENDED 30 JUNE 2018

	HY 2018	HY 2017	Change
Revenue	£1,423m	£1,307m	+9%
Operating profit - adjusted[1]	£31.9m	£24.9m	+28%
Profit before tax - adjusted[1]	£30.2m	£23.7m	+27%
Earnings per share - adjusted[1]	55.6p	43.6p	+28%
Period end net cash	£97m	£97m	-
Average daily net cash	£113m	£132m	-£19m
Interim dividend per share	19.0p	16.0p	+19%
Operating profit - reported	£31.6m	£24.3m	+30%
Profit before tax - reported	£29.9m	£23.1m	+29%
Basic earnings per share - reported	55.2p	42.5p	+30%

[1] *'Adjusted' is defined as before intangible amortisation (£0.3m) (HY 2017: before intangible amortisation (£0.6m)).*

HY 2018 summary:

- Strong results reflecting strategic and operational progress across the Group
    - Revenue up 9%
    - Adjusted profit before tax up 27% to £30.2m
- Average daily net cash of £113m; period end net cash of £97m
- Divisional highlights
    - Excellent performance from Fit Out; operating profit up 29% to £18.8m
    - Significant margin improvement in Construction & Infrastructure; operating margin up to 1.7% (HY 2017: 1.1%) reflecting focus on quality of earnings
    - Regeneration: Good performance from Urban Regeneration with profit up to £6.1m (HY 2017: £2.0m), with strong and visible development pipeline. Partnership Housing profit lower at £4.6m (HY 2017: £5.5m), impacted by construction cost overruns

- Property Services profit of £0.5m, reflecting the benefit of increased volumes. Loss in Investments of £1.1m due to scheme delays, but growing regeneration & development pipeline

- Interim dividend up 19% to 19p per share

Commenting on today's results, Chief Executive, John Morgan said:

"I am pleased to report another strong set of results, which demonstrate the considerable operational and strategic progress made across the Group. Fit Out and Construction & Infrastructure have both continued to deliver margin and profit growth, which has been complemented by a good performance from Urban Regeneration. There remain a significant number of opportunities in regeneration and our strong balance sheet and cash position leave us well-placed to invest further in this key strategic area.

Based upon its current trading patterns and order book visibility, the second half outlook for Fit Out is very positive and as a result of this, the Group is on track to deliver a result for the year which is slightly ahead of its previous expectations."

Enquiries

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Presentation

- There will be an analyst and investor presentation at 09.00 at Instinctif Partners, 65 Gresham Street, London EC2V 7NQ. Coffee and registration will be from 08.30
- A copy of these results is available at www.morgansindall.com
- Today's presentation will be available via live webcast from 09.00 at www.morgansindall.com. A recording will also be available via playback in the afternoon.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £2.8bn, employing around 6,400 employees and operating in the public, regulated and private sectors. It reports through six divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments.

Group Strategy & Structure

The Group's strategy is focused on its well-established core strengths of **Construction** and **Regeneration** in the UK. The Group has a balanced business which is geared toward the increasing demand for affordable housing, urban regeneration and infrastructure investment.

Under the two business activities of **Construction** and **Regeneration**, the Group is organised into six divisions as follows:

Construction activities comprise the following operations:

- ***Construction & Infrastructure***: Focused on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure; and on the education, healthcare, defence, commercial, industrial, leisure and retail markets in

Construction

- ***Fit Out***: Focused on the fit out of office space with opportunities in commercial, central and local government offices, further education and retail banking
- ***Property Services***: Focused on response and planned maintenance activities provided to social housing and the public sector

Regeneration activities comprise the following operations:

- ***Partnership Housing***: Focused on working in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, 'design & build' contracting and planned maintenance & refurbishment
- ***Urban Regeneration***: Focused on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration

In addition, ***Investments*** is focused on providing the Group with both construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets and generates development profits from such partnerships.

In February 2017, the Group announced a set of medium-term financial targets for each division (the '**target**' or '**targets**'). These targets relate to operating margin, return on capital employed or profit and are referenced in the divisional sections of the Business Review as appropriate.

Basis of Preparation

For HY 2018, the term 'adjusted' excludes the impact of intangible amortisation of £0.3m (HY 2017: intangible amortisation of £0.6m).

Group Operating Review

The positive momentum across the Group coming into 2018 has continued throughout the first half and has driven another strong period of growth. Group revenue increased by 9% up to £1,423m (HY 2017: £1,307m), while adjusted operating profit increased 28% to £31.9m (HY 2017: £24.9m). Operating margin increased to 2.2%, up 30 bps from the prior year period (HY 2017: 1.9%).

The Group has again made considerable operational and strategic progress in its activities and markets.
On a divisional basis, Construction & Infrastructure made significant progress with its focus on quality of earnings and contract selectivity, with its margin improving to 1.7% (HY 2017: 1.1%). This resulted in operating profit of £11.3m, up 49% on the prior year with revenue down 5% to £662m.
Fit Out delivered another excellent performance, with revenue, profit, and margin all increasing. Revenue grew 26% to £426m, while profit increased by 29% to £18.8m at a margin of 4.4% (HY 2017: 4.3%).

Profit from Urban Regeneration of £6.1m was a significant increase on the prior year (HY 2017: £2.0m), underpinning the Group's regeneration strategy. However, performance in Partnership Housing was disappointing, with profit down 16% to £4.6m (HY 2017: £5.5m) primarily impacted by one poor performing contracting project in London. Property Services contributed a small profit of £0.5m, benefiting from increased volumes, while Investments made a loss of £1.1m as a result of slippage in the timing of a number of its key developments.

The net finance expense increased to £1.7m (HY 2017: £1.2m), with the increase including a charge of £0.6m arising from the adoption of IFRS 16 and including the impact of higher interest payable on non-recourse project financing for Urban Regeneration.

This resulted in adjusted profit before tax of £30.2m, up 27% (HY 2017: £23.7m). The statutory profit before tax was £29.9m, an increase of 29% (HY 2017: £23.1m).

The tax charge of £5.4m broadly equates to tax at the UK statutory rate.

The adjusted earnings per share of 55.6p was up 28% on the prior year (HY 2017: 43.6p), while the statutory earnings per share was 55.2p (HY 2017: 42.5p).

The Group continues to apply strictly its definitions as to what is reported in its committed order book and regeneration & development pipeline (see Business Review).

The Group's order book at 30 June 2018 was £3,604m, 6% lower than at the start of the year. Key movements within this included Fit Out, which grew its order book by 6% to £528m, while Construction & Infrastructure was 5% lower at £1,761m, reflecting its contract selectivity in line with its strategic focus on quality of earnings and risk management. Partnership Housing was down 20% to £418m, reflecting a lower level of activity in its contracting activities.

In Regeneration, the Group's regeneration and development pipeline increased 5% to £3,386m. Within this,

Investments increased its regeneration pipeline by 62%, up to £516m. This includes only £113m of work which currently meets the criteria for inclusion from the new property partnership joint venture with Hertfordshire County Council which was announced in the period. Over the course of the 15 year partnership, the ambition is to develop approximately 40 sites with an estimated gross development value in total of £2bn.

The Group's balance sheet remains strong. Net cash at the period end was £97m (HY 2017: £97m).
Importantly, the average daily net cash in the period was £113m, which included £33m of non-recourse debt relating to specific projects in Urban Regeneration. Based upon current plans, it is expected that the average daily net cash will be in excess of £80m for the full year. Looking further ahead in the medium term, as the Group continues to invest across its Regeneration businesses, the Group plans to maintain an overall average daily net cash position.

Over the last twelve month period to 30 June 2018, there has been an operating cash inflow of £69.6m, which represents a conversion from operating profit of 92%, and a free cash inflow of £57.6m. For the half year period, there was an operating cash outflow of £57.9m (HY 2017: outflow of £86.5m) and a free cash out flow of £65.8m (HY 2017: outflow of £96.3m). This outflow in the half year includes the impact of the planned increase in the investment capital employed in the regeneration activities of Urban Regeneration and Partnership Housing of c £60m.
The interim dividend has been increased by 19% to 19.0p per share (HY 2017: 16.0p), reflecting the current performance, the strong balance sheet position and the Board's confidence in the future prospects of the Group.

Outlook

Based upon its current trading patterns and order book visibility, the second half outlook for Fit Out is very positive and as a result of this, the Group is on track to deliver a result for the year which is slightly ahead of its previous expectations.

Business Review

The following Business Review is given on an adjusted basis, unless otherwise stated.

Headline results by business segment

	Revenue		Operating Profit/(Loss)		Operating Margin	
	£m	change	£m	change	%	change
Construction & Infrastructure	662	-5%	11.3	+49%	1.7%	+60bps
Fit Out	426	+26%	18.8	+29%	4.4%	+10bps
Property Services	49	+58%	0.5	+67%	1.0%	-
Partnership Housing	231	+16%	4.6	-16%	2.0%	-80bps
Urban Regeneration	62	-13%	6.1	+205%	n/a	n/a
Investments	3	n/a	(1.1)	n/a	n/a	n/a
Central/Eliminations	(10)		(8.3)			
Total	**1,423**	**+9%**	**31.9**	**+28%**	**2.2%**	**+30bps**

Order book and regeneration & development pipeline

The Group's committed order book[1] at 30 June 2018 was £3,604m, a decrease of 6% from the year end position. The divisional split is shown below.

	HY 2018 £m	FY 2017 £m	Change
Construction & Infrastructure	1,761	1,855	-5%
Fit Out	528	500	+6%
Property Services	777	836	-7%
Partnership Housing	418	523	-20%
Urban Regeneration	115	141	-18%
Investments	7	7	-
Inter-divisional eliminations	(2)	(13)	
Group committed order book	**3,604**	**3,849**	**-6%**

[1] "Committed order book" comprises the secured order book and framework order book. The secured order book represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The framework order book represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

Specific to the Group's regeneration businesses only, the regeneration & development pipeline[2] was £3,386m, up 5% on the year end position.

	HY 2018 £m	FY 2017 £m	Change
Partnership Housing	744	851	-13%
Urban Regeneration	2,126	2,063	+3%
Investments	516	319	+62%
Group regeneration & development pipeline	**3,386**	**3,233**	**+5%**

[2] "Regeneration & development pipeline" represents the Group's share of the gross development value of secured schemes including the development value of open market housing schemes.

Construction & Infrastructure

	HY 2018 £m	HY 2017 £m	Change
Revenue	662	694	-5%
Operating profit - adjusted	11.3	7.6	+49%
Operating margin - adjusted	1.7%	1.1%	+60bps

Divisional revenue of £662m was down 5% on the prior year (HY 2017: £694m). Split by activity, ***Construction*** *(including Design)* ('Construction') accounted for 52% of divisional revenue at £342m, which was down 16% compared to the prior year, while ***Infrastructure*** (48% of divisional revenue) increased 12% to £320m.

Operating profit increased significantly to £11.3m, up 49%, with further improvement in the operating margin of 60bps, up to 1.7%. In line with the strategy of focusing on quality of earnings, the division is expected to see further margin progression in the second half.

Construction's operating margin for the period was 1.7%, up 70bps from 1.0% in the prior year period. This was achieved by the continued focus on contract selection, risk management and project delivery and resulted in operating profit for the period of £5.8m. ***Infrastructure*** delivered operating profit of £5.5m in the period, reflecting good margin growth up 50bps to 1.7% (HY 2017: 1.2%) and reflected the benefit of the increase in revenue and the work mix in the period.

The committed order book for the division at the period end was £1,761m, down 5% from the year end position. The ***Construction*** order book of £452m was down 5%, as was the ***Infrastructure*** order book, down to £1,309m. Consistent with its focus on contract selectivity, the appropriate risk profile has been maintained within the ***Construction*** order book, with 93% of the value derived through negotiated, framework or two-stage bidding procurement processes (HY 2017: 87%), and only 7% derived through competitive tenders (HY 2017: 13%). Based upon this and progress to date, the revised medium-term target for ***Construction*** is an operating margin of 2.5% (previous target of 2%).

In ***Construction***, the focus remains on improving its quality of earnings through contract selectivity and operational delivery. In the education sector, ongoing projects include the delivery of a new £20m Mathematics and Science building for Warwick University, the £35m Tonyrefail education campus in South Wales and a £45m Arts and Humanities facility for the Manchester Metropolitan University. In other sectors, ongoing projects include the £18m new build office and laboratory refurbishment for The Centre for the Environment, Fisheries & Aquaculture Science (CEFAS) in Suffolk.

Work won in the period includes a £46m mixed use development in Leicester and an £18m project to deliver new academic offices for the University of Birmingham, as well as the appointment to the £1.1bn Scape Group Regional Construction Framework which will provide construction services for public sector projects across the Midlands and East of England. In addition, Construction has been appointed to the £750m Select Property Group framework which will deliver new student accommodation facilities across the UK, with the first award under this framework being for the £25m development at the Old BBC Pebble Mill site in Birmingham.

In ***Infrastructure***, the focus remains on the key sectors of Aviation, Highways, Rail, Nuclear, Energy and Water.

In Aviation, current work undertaken at Heathrow Airport as part of the Q6 framework (to which the division was appointed in 2014 and which runs until 2020) includes projects to replace the pavement and ground lighting on the airfield's Alpha North taxiway, with the works being delivered in phases to allow continued use of the area for aircraft departing the Northern Runway. In Highways, work completed on the final stage of the A1(M) Leeming to Barton upgrade, while in Rail, the division completed its works on the Edinburgh to Glasgow Improvement Programme (EGIP) on behalf of Network Rail.

In the Energy sector, work has continued on the four year engineer, procure, construct (EPC) onshore electricity cable framework with National Grid, to which the division was appointed in 2016. Projects awarded under the framework typically vary in value between £2m-£50m, however the division is currently preferred bidder on the c £80m Visual Impact Provision (VIP) Dorset project which will see electricity cables undergrounded across the region in order to reduce the visual impact on the area. In the Nuclear sector, a key business win during the period was the securing of a place on the 10 year Clyde Commercial framework for the Defence Infrastructure Organisation (DIO) on

behalf of the Ministry of Defence. In addition, in Water the division continues to deliver the seven-year joint venture project to build the west section of the Thames Tideway Tunnel 'super-sewer'.

Fit Out

	HY 2018 £m	HY 2017 £m	Change
Revenue	426	339	+26%
Operating profit - adjusted	18.8	14.6	+29%
Operating margin - adjusted	4.4%	4.3%	+10bps

Fit Out delivered another excellent result in the period, with growth in revenue, profit and margin. Revenue increased by 26% to £426m (HY 2017: £339m), with operating profit up 29% to £18.8m (HY 2017: £14.6m) and operating margin increasing to 4.4% (HY 2017: 4.3%). Key drivers of performance remain strong operational delivery, a focus on customer experience and a high quality workload.

Of the revenue in the period, 80% related to the London region, up from 67% in the prior year period, with other regions at 20% (HY 2017: 33%). This equated to growth of some 50% in the London region, driven by ongoing activity on a small number of larger projects which included the fit out of Deloitte's UK headquarters at New Street Square, London comprising of c276,000 sq. ft. of office space.

Split by type of work, there was a slightly higher weighting towards traditional fit out work, which accounted for 87% of revenue (HY 2017: 83%), while 13% related to 'design and build' (HY 2017: 17%). In terms of the nature of work undertaken, the proportion of revenue generated from new office fit out increased to 45% (HY 2017: 34%), also driven by the small number of larger projects referred to above, while the fit out of existing office space reduced to 55% (HY 2017: 66%). Of the fit out of existing office space, 66% related to refurbishment 'in occupation'.

By sector, the commercial office market remains the largest, contributing 86% of revenue (HY 2017: 83%), with higher education at 6% of revenue, retail banking at 3%, and government and local authority work making up the remainder.

The committed order book at 30 June was £528m, up 6% from the year end position (FY 2017: £500m), however down 7% from the prior year position (HY 2017: £568m).

Of this, £320m (61%) relates to the second half of the year. The equivalent amount at 30 June 2017 which related to the second half of 2017 was £325m. The remaining £208m (39%) relates to 2019 and beyond and the equivalent amount at 30 June 2017 which related to 2018 and beyond was £243m. This implies 14% lower visibility for future years than at the same time last year.

New contract wins in the period include the appointment to the Department of Work & Pensions Estates Contractor Framework for the London & South East, Scotland and The North East and the fit out and upgrading of 27 storeys including existing office floors and roof repairs for Royal Dutch Shell on London's Southbank. In addition, the division is working with National Grid at their headquarters in Warwick to complete a phased refurbishment in occupation of c50,000 sq ft of office space.

Based upon the financial and operational performance in first half, together with the forward visibility provided by the order book for the second half of the year, it is now anticipated that the divisional result for the year will be higher than previously expected. Further, the revised medium-term target is to deliver annual profit in the range of £30m - £35m through the cycle (previous target of £25m - £30m).

Property Services

	HY 2018 £m	HY 2017 £m	Change
Revenue	49	31	+58%
Operating profit - adjusted	0.5	0.3	+67%
Operating margin - adjusted	1.0%	1.0%	-

Property Services performed well in the period, with revenue up 58% to £49m and operating profit up 67% to £0.5m.

Revenue growth was driven both by new contract wins and by an increase in the scope on various existing contracts, primarily being integrated services works for City West Homes and Basildon and planned works for the London Borough of Camden. This has resulted in the division now delivering repairs and maintenance services for more than 160,000 homes, together with a significantly higher level of planned maintenance activity.

Operating profit of £0.5m reflected the benefit of the additional contribution from the higher revenue together with the positive impact of a more efficient overhead structure arising from last year's restructuring.

The committed order book of £777m, represents an increase of 10% compared to the prior year, although down 7%

from the year end position. The strategy remains focusing on long term, 10 year plus, integrated contracts which can deliver sustainable profitable growth. The number of identified market opportunities is strong, with the division currently involved in live integrated tenders with aggregate value of some £670m.

Partnership Housing

	HY 2018 £m	HY 2017 £m	Change
Revenue	231	200	+16%
Operating profit - adjusted	4.6	5.5	-16%
Operating margin - adjusted	2.0%	2.8%	-80bps
Average capital employed[1] (last 12 months)	103.5	94.6	
Capital employed[1] at period end	118.2	102.4	

Revenue increased by 16% in the period up to £231m, driven by growth in the mixed-tenure activities. ***Mixed-tenure*** revenue (38% of divisional total) was up 50% to £87m (HY 2017: £58m) and benefited from a number of open market unit completions carried over from the fourth quarter of last year. ***Contracting*** revenue (including planned maintenance and refurbishment) was up 1% to £144m (62% of divisional total).

In mixed-tenure, 357 units (HY 2017: 315) were completed across open market sales and social housing at an average sales price of £244k (HY 2017: £184k).

Despite the increase in revenue, operating profit reduced to £4.6m, down 16%, with the operating margin down to 2.0% (HY 2017: 2.8%). Profit was impacted in the period by cost and programme delivery issues in ***Contracting.*** The mixed-tenure development activities continued to perform as planned.

As previously reported, the division experienced cost escalation on one 'design & build' contract in London in the second half of 2017 and these issues have continued through into the first half impacting results. The contract is due to be completed in the third quarter of the year.

A new senior management team has been appointed to drive the strategic and financial development of the division as well as improving the operational performance of the contracting activities.

Key projects in the period include the commencement of construction on the £41m development for Homes England at Priorslee, Telford, which will create 220 affordable and open market homes and a £45m joint venture project with Homes England at Leyland, Lancashire, to build 200 homes through the accelerated Construction Programme. In addition, the division has recently been selected by Liverpool city Council's new housing company, Foundations, to build the first homes set to be delivered through Foundations' major new-build programme.

The capital employed at period end was £118.2m, an increase of £30.2m since the year end position (FY 2017: capital employed £88.0m) and an increase of £15.8m from the prior year position (HY 2017: capital employed £102.4m). The average capital employed for the last 12-month period was £103.5m resulting in an overall ROCE[2] of 13% (HY 2017: ROCE[2] of 15%). Capital employed is expected to remain at current levels of c£120m for the rest of the year.

The order book has reduced to £418m from the start of the year (FY 2017: £523m) and reflects the lower level of activity in the contracting activities. The regeneration and development pipeline decreased 13% to £744m, however the level of visible opportunities which don't yet meet the strict criteria for inclusion in the regeneration pipeline remains significant.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

[2] Return On Average Capital Employed = Adjusted operating profit divided by average capital employed.

Urban Regeneration

	HY 2018 £m	HY 2017 £m	Change
Revenue	62	71	-13%
Operating profit - adjusted	6.1	2.0	+205%
Average capital employed[1] (last 12 months)	102.1	79.4	
Capital employed[1] at period end	114.0	88.7	

Urban Regeneration delivered a strong performance in the period, with operating profit of £6.1m well up on the prior year (HY 2017: £2.0m) resulting from the high level of current activity across the division's development portfolio.

The main contributors to performance in the period were ongoing development profit on a pre-let and forward sold 361,000 sq ft distribution hub at Logic Leeds; development profit on a forward sold 100,000 sq ft headquarters office

building pre-let to Conwy County Borough Council; and profit shares on both a residential land sale in Crewe and on the sale of a distribution warehouse at the Eurocentral commercial development, near Motherwell.

In addition, development management fees were generated from the New Bailey development, part of the Salford regeneration scheme managed by English Cities Fund (ECf), a joint venture with Legal & General and Homes England, and from the Warrington Time Square development scheme.

Capital employed at the period end was £114.0m, which represented an increase of £29.0m from the year end position of £85.0m and an increase of £25.3m over the prior year period end. Average capital employed for the last 12-month period was £102.1m, with an overall ROCE[2] of 12%. Average capital employed is expected to be within the range of £100m-£110m for the full year.

The market opportunity for the division remains sizeable and a second half weighting to results is expected based upon the current scheduled development completions. The combined regeneration and development pipeline (£2.1bn) and committed order book (£115m), together totalling £2,241m was up 2% from the year end position.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

[2] Return On Average Capital Employed = (Adjusted operating profit less interest/fees on non-recourse debt in the last twelve months) divided by (average capital employed). Interest and fees on non-recourse debt in the last twelve months was £2.2m.

Investments

	HY 2018 £m	HY 2017 £m	Change
Operating (loss)/profit - adjusted	(1.1)	0.6	n/a

Investments reported a loss in the period of £1.1m. Whilst returns were generated from its established partnerships, most notably from developments through its partnerships with Slough Borough Council and Bournemouth Borough Council, these were lower than anticipated due to key milestones on a number of schemes being delayed. Based upon current schedules and plans, it is now expected that division will show a loss for the full year.

A key benefit of the division is to provide high quality construction and regeneration work for other parts of the Group and during the period, £58m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure).
Capital employed at the period end was £41.8m (HY 2017: £27.4m), an increase of £3.2m from the year end (FY 2017: capital employed £38.6m).

The division was successful in establishing a new property partnership in the period through a joint venture with Hertfordshire County Council. The partnership is for an initial 15-year term, with the option to extend by a further 5 years and has an ambition to develop approximately 40 sites with an estimated gross development value of £2bn.

The regeneration & development pipeline of £516m was up 62% from the year end position (FY 2017: £319m). Of the increase, £113m relates to Hertfordshire, being 50% of the GDV of the initially identified sites which meet the criteria for inclusion in the regeneration pipeline. The overall future opportunity remains significant.

Other Financial Information

1. Net finance expense. Net finance expense was £1.7m, a £0.5m increase versus HY 2017. This included a charge of £0.6m which related to the interest expense on lease liabilities under IFRS 16 which was adopted in the period as well as the impact of higher interest payable on non-recourse project financing for Urban Regeneration.

	HY 2018 £m	HY 2017 £m	% change
Interest payable on project financing & other debt	(0.9)	(0.2)	-350%
Amortisation of bank fees & non-utilisation fees	(1.1)	(1.4)	+21%
Interest expense on lease liabilities	(0.6)	-	n/a
Interest from JVs	1.0	0.6	+67%
Other	(0.1)	(0.2)	+50%
Total net finance expense	**(1.7)**	**(1.2)**	**-42%**

2. Tax. A tax charge of £5.4m is shown for the period (HY 2017: £4.4m).

	HY 2018	HY 2017

	£m	£m
Profit before tax	29.9	23.1
Less: share of net profit in taxed joint ventures[1]	(0.3)	-
Profit before tax excluding joint ventures	**29.6**	**23.1**
Statutory tax rate	19.0%	19.25%
Current tax charge at statutory rate	**(5.6)**	**(4.4)**
Other adjustments	0.2	-
Tax charge	**(5.4)**	**(4.4)**

[1] *Certain of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture.*

3. Net working capital. 'Net Working Capital' is defined as 'Inventories plus Trade & Other Receivables, less Trade & Other Payables' adjusted as below.

	HY 2018 £m	HY 2017 £m	Change £m
Inventories	316.7	270.9	+45.8
Trade & Other Receivables[1]	487.7	428.5	+59.2
Trade & Other Payables[2]	(885.8)	(786.2)	-99.6
Net working capital	**(81.4)**	**(86.8)**	**+5.4**

[1] *Adjusted to exclude capitalised arrangement fees (£1.1m) (HY 2017: £1.6m) and derivative financial assets (£nil) (HY 2017: £2.0m).*

[2] *Adjusted to exclude deferred consideration payable (£nil) (HY 2017: £7.5m), accrued interest (£0.2m) (HY 2017: £0.2m) and derivative financial liabilities (£nil) (HY 2017: £1.3m).*

4. Cash flow. Operating cash flow for the 12 months to 30 June 2018 was an inflow of £69.6m and a free cash inflow of £57.6m. For the half year period to 30 June 2018, there was an operating cash outflow of £57.9m (HY 2017: outflow £86.5m).

	HY 2018 £m	HY 2017 £m	Last 12 months
Operating profit - adjusted	**31.9**	**24.9**	**75.6**
Depreciation	8.5	2.5	11.6
Share option expense	3.1	2.0	6.6
Movement in fair value of shared equity loans	(0.2)	(0.3)	(0.4)
Share of net profit of joint ventures	(1.1)	(2.0)	(3.2)
Other operating items [1]	2.6	4.3	4.4
Change in working capital[2]	(94.8)	(116.8)	(15.8)
Net capital expenditure (including repayment of finance leases)	(8.9)	(1.7)	(13.3)
Dividends and interest received from joint ventures	1.0	0.6	4.1
Operating cash flow	**(57.9)**	**(86.5)**	**69.6**
Income taxes paid	(6.6)	(6.3)	(9.9)
Net interest paid (non-joint venture)	(1.3)	(3.5)	(2.1)
Free cash flow	**(65.8)**	**(96.3)**	**57.6**

[1] *'Other operating items' includes provision movements (£1.7m), shared equity redemptions (£1.1m) less gain on disposals (£0.2m).*

[2] *The cash flow for the last 12 months due to a change in working capital excludes a net £10.4m comprising: non-cash movement from the change in accounting policy (£11.7m), unwind of discounting on land creditors (£0.8m), and exchange differences on the translation of overseas operation (£0.3m) offset by a non-cash transfer of freehold land and buildings from property, plant and equipment to inventories (£2.4m).*

5. Net cash. Net cash at the period end was £96.9m, as a result of a net cash outflow of £96.5m.

	£m
Net cash as at 1 January 2018	**193.4**
Free cash flow (as above)	(65.8)
Dividends	(12.9)
Other[1]	(17.8)
Net cash as at 30 June 2018	**96.9**

[1] *'Other' includes net loans advanced to JVs (£11.6m), deferred consideration paid in relation to the acquisition of a joint venture and other investment*

(£2.2m), purchase of shares in the Company by the employee benefit trust (£9.5m), proceeds from the issue of new shares (£3.8m), and proceeds from the exercise of share options (£1.7m).

6. Capital employed by strategic activity. An analysis of the negative capital employed in the **Construction** activities shows a decrease of £48.0m since the previous year, split as follows:

Capital employed[1] in Construction	HY 2018 £m	HY 2017 £m	Change £m
Construction & Infrastructure	(235.3)	(193.2)	-42.1
Fit Out	(49.8)	(42.9)	-6.9
Property Services	11.1	10.1	+1.0
	(274.0)	**(226.0)**	**-48.0**

An analysis of capital employed in the **Regeneration** activities shows an increase of £41.1m since the previous year, split as follows:

Capital employed[1] in Regeneration	HY 2018 £m	HY 2017 £m	Change £m
Partnership Housing[2]	118.2	102.4	+15.8
Urban Regeneration[2]	114.0	88.7	+25.3
	232.2	**191.1**	**+41.1**

1 *Total assets (excluding goodwill, intangibles, inter-company financing and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).*

2 *Definition as per the Partnership Housing and Urban Regeneration sections in the Business Review.*

7. Dividends. The Board of Directors has proposed an interim dividend of 19.0p per share (HY 2017: 16.0p), up 19% on the prior year. This will be paid on 29 October 2018 to shareholders on the register at 12 October 2018. The ex-dividend date will be 11 October 2018.

8. Changes in Accounting Policies. The Group adopted the following accounting standards on 1 January 2018:

8.1 IFRS 9 'Financial instruments'. Introduces changes to the classification and measurement of financial assets, hedge accounting and the model to be applied when assessing whether financial assets are impaired. This has resulted in an impairment provision of £2.3m being recognised in relation to loans that were part of the Group's long-term interests in a PFI joint venture and trade and other receivables. The net effect on opening reserves at 1 January 2018 was £1.9m net of deferred tax adjustments.

8.2 IFRS 15 'Revenue from contracts with customers'. Introduces a new model for revenue recognition based on the satisfaction of performance obligations. For the Group there are three main areas of change: a greater degree of certainty is required to recognise variable revenue in relation to liquidated damage deductions, revenue for forward-sold, pre-let developments is recognised over time rather than at a point in time where certain conditions are met, and the costs of fulfilling a contract are only capitalised where they are expected to be recovered over the duration of the work and the Group has a contractual entitlement to recover them in the event of a no-fault termination. The effect of these changes on opening reserves at the date of transition was £9.8m net of deferred tax adjustments.

8.3 IFRS 16 'Leases'. Requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. The effect of this for the Group has been to recognise a right-of-use asset of £42.9m and lease liability of £43.4m at the transition date of 1 January 2018. The Group has taken advantage of the practical expedients to grandfather previous conclusions under IAS 17 on which contracts contain leases, to apply the cumulative catch up approach rather than full retrospective application and to measure the right-of-use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date.

Cautionary forward-looking statement

These results contain forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Condensed consolidated income statement
For the six months ended 30 June 2018

	Six months to 30 June 2018 (unaudited)	Six months to 30 June 2017 (unaudited)	Year ended 31 Dec 2017 (audited)

	Notes	£m	£m	£m
Revenue	2	**1,422.6**	1,307.3	2,792.7
Cost of sales		**(1,276.4)**	(1,177.5)	(2,518.3)
Gross profit		**146.2**	129.8	274.4
Administrative expenses		**(115.4)**	(106.9)	(209.9)
Share of net profit of joint ventures		**1.1**	2.0	4.1
Operating profit before amortisation of intangible assets		**31.9**	24.9	68.6
Amortisation of intangible assets		**(0.3)**	(0.6)	(1.2)
Operating profit		**31.6**	24.3	67.4
Finance income		**1.2**	0.8	1.6
Finance costs		**(2.9)**	(2.0)	(4.1)
Profit before tax		**29.9**	23.1	64.9
Tax	1	**(5.4)**	(4.4)	(12.5)
Profit for the period		**24.5**	18.7	52.4
Attributable to:				
Owners of the Company		**24.5**	18.7	52.4
Earnings per share				
Basic	5	**55.2p**	**42.5p**	118.8p
Diluted	5	**54.1p**	**41.0p**	112.7p

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 2018

	Notes	**Six months to 30 June 2018 (unaudited) £m**	Six months to 30 June 2017 (unaudited) £m	Year ended 31 Dec 2017 (audited) £m
Profit for the period		**24.5**	18.7	52.4
Items that will not be reclassified subsequently to profit or loss:				
Actuarial (loss)/gain arising on retirement benefit obligation	10	**(2.8)**	-	0.1
Deferred tax on retirement benefit obligation		**0.5**	-	-
		(2.3)	-	0.1
Items that may be reclassified subsequently to profit or loss:				
Foreign exchange movement on translation of overseas operation		**0.1**	(0.3)	(0.2)
Gains arising during the period on cash flow hedges		**-**	0.4	0.3
Reclassification from cash flow hedges to the income statement		**(0.5)**	(0.7)	(0.7)
Deferred tax relating to items that may be reclassified		**-**	-	0.1
		(0.4)	(0.6)	(0.5)
Other comprehensive expense		**(2.7)**	(0.6)	(0.4)
Total comprehensive income		**21.8**	18.1	52.0
Attributable to:				
Owners of the Company		**21.8**	18.1	52.0

Condensed consolidated balance sheet

At 30 June 2018

	Notes	**30 June 2018 (unaudited) £m**	30 June 2017 (unaudited) £m	31 Dec 2017 (audited) £m
Assets				
Goodwill and other intangible assets		**215.5**	216.4	215.8
Property, plant and equipment		**57.3**	15.5	14.4
Investment property		**5.9**	6.3	5.9
Investments in joint ventures		**87.5**	63.8	76.7
Other investments		**1.3**	-	1.3
Shared equity loan receivables	6	**14.7**	16.9	15.6
Retirement benefit asset	10	**0.1**	2.6	2.8
Non-current assets		**382.3**	321.5	332.5
Inventories		**316.7**	270.9	295.0
Trade and other receivables	7	**488.8**	432.1	404.1

	Notes			
Cash and cash equivalents	8	**139.9**	112.3	221.2
Current assets		**945.4**	815.3	920.3
Total assets		**1,327.7**	1,136.8	1,252.8
Liabilities				
Trade and other payables	9	**(875.9)**	(793.5)	(854.1)
Current tax liabilities		**(7.7)**	(5.0)	(8.9)
Lease liabilities		**(10.3)**	(0.5)	(0.5)
Borrowings	8	**(43.0)**	(15.2)	(27.8)
Current liabilities		**(936.9)**	(814.2)	(891.3)
Net current assets		**8.5**	1.1	29.0
Trade and other payables		**(10.1)**	(1.7)	(9.6)
Lease liabilities		**(33.9)**	(0.4)	(0.4)
Deferred tax liabilities		**(11.2)**	(12.5)	(13.9)
Provisions		**(22.7)**	(21.1)	(21.0)
Non-current liabilities		**(77.9)**	(35.7)	(44.9)
Total liabilities		**(1,014.8)**	(849.9)	(936.2)
Net assets		**312.9**	286.9	316.6
Equity				
Share capital		**2.3**	2.2	2.2
Share premium account		**37.5**	33.8	33.8
Other reserves		**(0.7)**	(0.4)	(0.3)
Retained earnings		**273.8**	251.3	280.9
Equity attributable to owners of the Company		**312.9**	286.9	316.6
Total equity		**312.9**	286.9	316.6

Condensed consolidated cash flow statement

For the six months ended 30 June 2018

	Notes	**Six months to 30 June 2018 (unaudited) £m**	Six months to 30 June 2017 (unaudited) £m	Year ended 31 Dec 2017 (audited) £m
Operating activities				
Operating profit		**31.6**	24.3	67.4
Adjusted for:				
Amortisation of intangible assets		**0.3**	0.6	1.2
Share of net profit of equity accounted joint ventures		**(1.1)**	(2.0)	(4.1)
Depreciation		**8.5**	2.5	5.6
Share option expense		**3.1**	2.0	5.5
Gain on disposal of property, plant and equipment		**(0.2)**	(0.1)	(0.1)
Movement in fair value of shared equity loan receivables		**(0.2)**	(0.3)	(0.5)
Disposals of investment properties		**-**	0.3	0.7
Repayment of shared equity loan receivables		**1.1**	1.8	3.3
Increase in provisions		**1.7**	2.3	2.2
Operating cash inflow before movements in working capital		**44.8**	31.4	81.2
Increase in inventories		**(31.7)**	(57.0)	(78.7)
Increase in receivables		**(84.7)**	(98.9)	(71.3)
Increase in payables		**21.6**	39.1	112.2
Movements in working capital		**(94.8)**	(116.8)	(37.8)
Cash (outflow)/inflow from operations		**(50.0)**	(85.4)	43.4
Income taxes paid		**(6.6)**	(6.3)	(9.6)
Net cash (outflow)/inflow from operating activities		**(56.6)**	(91.7)	33.8
Investing activities				
Interest received		**1.4**	0.8	1.4
Dividend from joint ventures		**-**	-	2.6
Proceeds on disposal of property, plant and equipment		**0.3**	0.1	0.6
Purchases of property, plant and equipment		**(1.5)**	(1.4)	(6.3)
Net increase in loans to joint ventures		**(11.6)**	(4.9)	(14.2)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(2.0)**	-	(9.6)
Payment for other investments		**(0.2)**	-	(1.1)
Net cash outflow from investing activities		**(13.6)**	(5.4)	(26.6)
Financing activities				
Interest paid		**(1.7)**	(3.7)	(4.6)
Dividends paid	4	**(12.9)**	(9.7)	(16.8)
Repayments of lease obligations		**(7.7)**	(0.4)	(0.4)
Proceeds from/(repayment of) borrowings	8	**15.2**	(4.6)	8.0
Proceeds on issue of share capital		**3.8**	0.1	0.1
Payments by the Trust to acquire shares in the Company		**(9.5)**	(1.0)	(1.1)

Proceeds on exercise of share options		**1.7**	0.2	0.3
Net cash outflow from financing activities		**(11.1)**	(19.1)	(14.5)
Net decrease in cash and cash equivalents		**(81.3)**	(116.2)	(7.3)
Cash and cash equivalents at the beginning of the period		**221.2**	228.5	228.5
Cash and cash equivalents at the end of the period	8	**139.9**	112.3	221.2

Condensed consolidated statement of changes in equity
For the six months ended 30 June 2018

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2018	2.2	33.8	(0.3)	280.9	316.6
Effect of change in accounting policies (note 1)	-	-	-	(11.7)	(11.7)
As restated	2.2	33.8	(0.3)	269.2	304.9
Total comprehensive income	-	-	(0.4)	22.2	21.8
Share option expense	-	-	-	3.1	3.1
Issue of shares at a premium	0.1	3.7	-	-	3.8
Exercise of share options and vesting of share awards	-	-	-	1.7	1.7
Purchase of shares in the Company by the Trust	-	-	-	(9.5)	(9.5)
Dividends paid	-	-	-	(12.9)	(12.9)
30 June 2018 (unaudited)	**2.3**	**37.5**	**(0.7)**	**273.8**	**312.9**

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2017	2.2	33.7	0.2	241.1	277.2
Total comprehensive income	-	-	(0.6)	18.7	18.1
Share option expense	-	-	-	2.0	2.0
Issue of shares at a premium	-	0.1	-	-	0.1
Purchase of shares in the Company by the Trust	-	-	-	(0.8)	(0.8)
Dividends paid	-	-	-	(9.7)	(9.7)
30 June 2017 (unaudited)	2.2	33.8	(0.4)	251.3	286.9

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2017	2.2	33.7	0.2	241.1	277.2
Total comprehensive income	-	-	(0.5)	52.5	52.0
Share option expense	-	-	-	5.5	5.5
Tax relating to share option expense	-	-	-	(0.6)	(0.6)
Issue of shares at a premium	-	0.1	-	-	0.1
Exercise of share options and vesting of share awards	-	-	-	0.3	0.3
Purchase of shares in the Company by the Trust	-	-	-	(1.1)	(1.1)
Dividends paid	-	-	-	(16.8)	(16.8)
31 December 2017 (audited)	2.2	33.8	(0.3)	280.9	316.6

Other reserves
Other reserves include:

- Capital redemption reserve of £0.6m (30 June 2017: £0.6m, 31 December 2017: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (30 June 2017: (£0.3m), 31 December 2017: (£0.3m)) arising 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.
- Translation reserve of (£0.5m) (30 June 2017: (£0.7m), 31 December 2017: (£0.6m)) arising on the translation of overseas operations into the Group's functional currency.

Retained earnings
Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust to satisfy options under the Group's share incentive schemes. The number of shares held by the Trust at 30 June 2018 was 339,627 (30 June 2017: 619,535, 31 December 2017: 555,104) with a cost of £4.7m (30 June 2017: £4.7m, 31 December 2017: £4.2m).

Notes to the consolidated financial statements
For the six months ended 30 June 2018

1 Basis of preparation

General information
The financial information for the year ended 31 December 2017 set out in this half year report does not constitute the Company's statutory accounts as defined by section 434 of the Companies Act 2006. 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 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 2018 and 2017 and for the six months ended 30 June 2018 and 2017 are therefore unaudited.

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 IAS 34 'Interim Financial Reporting'. 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.

Going concern
As at 30 June 2018, the Group had net cash of £96.9m and total undrawn committed banking facilities of £180m which are in place for greater than one year. The directors have reviewed the Group's forecasts and projections, and have modelled certain downside scenarios which show that the Group will have a sufficient level of headroom within facility limits and covenants for the foreseeable future. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Tax
A tax charge of £5.4m is shown for the six month period (six months to 30 June 2017: £4.4m, year ended 31 December 2017: £12.5m). This tax charge is recognised based upon the best estimate of the average effective income tax rate on profit before tax for the full financial year.

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

Changes in accounting policies
The Group adopted the following accounting standards on 1 January 2018:

- IFRS 9 'Financial instruments'. Introduces changes to the classification and measurement of financial assets, hedge accounting and the model to be applied when assessing whether financial assets are impaired. This has resulted in an impairment provision of £2.3m being recognised in relation to loans that were part of the Group's long-term interests in a PFI joint venture and trade and other receivables. The net effect on opening reserves at 1 January 2018 was £1.9m net of deferred tax adjustments.
- IFRS 15 'Revenue from contracts with customers'. Introduces a new model for revenue recognition based on the satisfaction of performance obligations. For the Group there are three main areas of change: a greater degree of certainty is required to recognise variable revenue in relation to liquidated damage deductions, revenue for forward-sold, pre-let developments is recognised over time rather than at a point in time where certain conditions are met, and the costs of fulfilling a contract are only capitalised where they are expected to be recovered over the duration of the work and the Group has a contractual entitlement to recover them in the event of a no-fault termination. The effect of these changes on retained earnings at the date of transition was £9.8m net of deferred tax adjustments.
- IFRS 16 'Leases'. Requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. The effect of this for the Group has been to recognise a right-of-use asset of £42.9m and lease liability of £43.4m at the transition date of 1 January 2018. The Group has taken advantage of the practical expedients to grandfather previous conclusions under IAS 17 on which contracts contain leases, to apply the cumulative catch up approach rather than full retrospective application and to measure the right-of-use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date.

The effect of the accounting policy changes on 1 January 2018 can be summarised as follows:

£m	As previously reported	Adjustments			As restated
		IFRS 9	IFRS 15	IFRS 16	
Property, plant and equipment	14.4	-	-	42.9	57.3
Investments in joint ventures	76.7	(1.9)	-	-	74.8
Inventories	295.0	-	(10.0)	-	285.0
Trade and other receivables	404.1	(0.4)	3.2	(0.7)	406.2
Change in total assets		(2.3)	(6.8)	42.2	
Trade and other payables - current	(854.1)	-	(5.0)	1.2	(857.9)
Lease liabilities - current	(0.5)	-	-	(10.2)	(10.7)
Lease liabilities - non-current	(0.4)	-	-	(33.2)	(33.6)
Deferred tax liabilities	(13.9)	0.4	2.0	-	(11.5)
Change in total liabilities		0.4	(3.0)	(42.2)	
Change in total equity		**(1.9)**	**(9.8)**	**-**	

The Group's new accounting policies are set out below. Other than those described below, there have not been any other significant changes to accounting policies, presentation or methods of preparation since the Group's latest annual audited financial statements for the year ended 31 December 2017.

Revenue and margin recognition
The principal revenue streams within the Group are as follows:

(a) Construction and infrastructure services contracts
Construction & Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration all derive a significant portion of their revenue from construction and infrastructure services contracts. These services are provided to customers across a wide variety of sectors and the size and duration of the contracts can vary significantly from a few weeks to more than 10 years.

The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. Whilst the scope of works may include a number of different components, in the context of construction and infrastructure services activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed price construction contracts progress is measured through a valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed such as changes in scope. For cost reimbursable infrastructure services contracts progress is measured based on the costs incurred to date as a proportion of the estimated total cost and an assessment of the final contract price payable.

Variations are only included in the estimated total contract price when the customer has agreed the revised scope of work. Where the scope has been agreed but the corresponding change in price has not yet been agreed, only the amount that is considered highly probable not to reverse in the future is included in the estimated total contract price. Where delays to the programme of works are anticipated and liquidated damages would be contractually due, the estimated total contract price is reduced accordingly. This is only mitigated by expected extensions of time or commercial resolution being achieved where it is highly probable that this will not lead to a significant reversal in the future.

For cost reimbursable contracts, expected pain share is recognised in the estimated total contract price immediately whilst anticipated gain share and performance bonuses are only recognised at the point that they are agreed by the customer.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defects liability period.

Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Service contracts

Service contracts include design, maintenance and management services in Construction & Infrastructure, Property Services, Urban Regeneration and Investments. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

(c) Sale of land and properties

Partnership Housing, Urban Regeneration and Investments derive a significant portion of revenue from the sale of land, and the development and sale of residential and commercial properties.

Contracts are typically satisfied at a point in time. This is usually deemed to be legal completion as this is the point at which the Group has an enforceable right to payment. The only exception to this is pre-let forward-sold developments where the customer controls the work in progress as it is created; or where the Group is unable to put the asset being constructed to an alternative use due to legal or practical limitations and has an enforceable right to payment for the work completed to date. Where these conditions are met, the contract is accounted for as construction contract in accordance with paragraph (a) above.

Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral rarely exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Group no longer utilises shared equity loan schemes for the sale of residential properties.

Proceeds from the sale of properties taken in part exchange is not included in revenue but is treated as a reduction in costs.

In order to recognise profit it is necessary to estimate the total costs of a development. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured and the expected cost of any rectification works during the defects liability period which is 12 months for commercial property and 24 months for residential property.

Profit is recognised by allocating the total costs of a scheme to each unit at a consistent margin. For mixed tenure schemes which also incorporate a construction contract, the margin recognised for the open market units is consistent with the construction contract element of the development.

(d) Contract costs

Costs to obtain a contract are expensed unless they are incremental, i.e. they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

(e) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

(f) Leases

Where the Group is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications. The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset. The right-of-use asset is subsequently depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

2 Revenue

An analysis of the Group's revenue which depicts the nature, timing and uncertainty of the different revenue streams is as follows:

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year ended 31 Dec 2017 £m
Construction and design	**342.2**	409.1	807.3
Infrastructure	**319.6**	284.6	587.5
Construction and Infrastructure	**661.8**	693.7	1,394.8
Traditional fit out	**371.0**	283.2	616.5
Design and build	**55.4**	56.1	118.4
Fit Out	**426.4**	339.3	734.9
Property Services	**48.9**	31.4	66.2
Contracting	**144.5**	141.9	290.1
Mixed tenure	**86.8**	58.0	183.4
Partnership Housing	**231.3**	199.9	473.5
Urban Regeneration	**61.6**	70.7	175.3
Investments	**3.3**	5.5	10.6
Eliminations	**(10.7)**	(33.2)	(62.6)
Total revenue	**1,422.6**	1,307.3	2,792.7

3 Business segments

For management purposes, the Group is organised into six operating divisions: Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments. The divisions' activities are as follows:

- Construction & Infrastructure: provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks offers a multidisciplinary design and engineering consultancy.
- Fit Out: Overbury specialises in fit out and refurbishment in commercial, central and local government offices, further education and retail banking. Morgan Lovell provides design and build services for the office sector.
- Property Services: provides planned asset management and responsive maintenance to social housing and the wider public sector.
- Partnership Housing: works in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and affordable rent, design and build contracting and planned maintenance and refurbishment.
- Urban Regeneration: works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.
- Investments: works to provide the Group with construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets.

Group Activities represents costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, insurance management, company secretarial services, information technology services, interest revenue and interest expense. The divisions are the basis on which the Group reports its segmental information as presented below:

Six months to 30 June 2018

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	**651.1**	**426.4**	**48.9**	**231.3**	**61.6**	**3.3**	**-**	**-**	**1,422.6**
Inter-segment revenue	**10.7**	**-**	**-**	**-**	**-**	**-**	**-**	**(10.7)**	**-**
Total revenue	**661.8**	**426.4**	**48.9**	**231.3**	**61.6**	**3.3**	**-**	**(10.7)**	**1,422.6**
Operating profit/(loss) before amortisation of intangible assets	**11.3**	**18.8**	**0.5**	**4.6**	**6.1**	**(1.1)**	**(8.3)**	**-**	**31.9**
Amortisation of intangible assets	**-**	**-**	**(0.3)**	**-**	**-**	**-**	**-**	**-**	**(0.3)**
Operating profit/(loss)	**11.3**	**18.8**	**0.2**	**4.6**	**6.1**	**(1.1)**	**(8.3)**	**-**	**31.6**

Six months to 30 June 2017

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	660.5	339.3	31.4	199.9	70.7	5.5	-	-	1,307.3
Inter-segment revenue	33.2	-	-	-	-	-	-	(33.2)	-
Total revenue	693.7	339.3	31.4	199.9	70.7	5.5	-	(33.2)	1,307.3
Operating profit/(loss) before amortisation of intangible assets	7.6	14.6	0.3	5.5	2.0	0.6	(5.7)	-	24.9
Amortisation of intangible assets	-	-	(0.3)	(0.2)	(0.1)	-	-	-	(0.6)
Operating profit/(loss)	7.6	14.6	-	5.3	1.9	0.6	(5.7)	-	24.3

Year ended 31 December 2017

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	1,332.6	734.5	66.2	473.5	175.3	10.6	-	-	2,792.7
Inter-segment revenue	62.2	0.4	-	-	-	-	-	(62.6)	-
Total revenue	1,394.8	734.9	66.2	473.5	175.3	10.6	-	(62.6)	2,792.7
Operating profit/(loss) before amortisation of intangible assets	20.4	39.1	(1.3)	14.1	10.0	0.5	(14.2)	-	68.6
Amortisation of intangible assets	-	-	(0.6)	(0.4)	(0.2)	-	-	-	(1.2)
Operating profit/(loss)	20.4	39.1	(1.9)	13.7	9.8	0.5	(14.2)	-	67.4

During the period ended 30 June 2018, the period ended 30 June 2017 and the year ended 31 December 2017, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

4 Dividends

Amounts recognised as distributions to equity holders in the period:

	Six months to 30 June 2018	Six months to 30 June 2017	Year ended 31 Dec 2017
	£m	£m	£m
Final dividend for the year ended 31 December 2017 of 29.0p per share	**12.9**	-	-
Final dividend for the year ended 31 December 2016 of 22.0p per share	**-**	9.7	9.7
Interim dividend for the year ended 31 December 2017 of 16.0p per share	**-**	-	7.1
	12.9	9.7	16.8

The proposed interim dividend of 19.0p per share was approved by the Board on 8 August 2018 and will be paid on 29 October 2018 to shareholders on the register on 12 October 2018. The ex-dividend date is 11 October 2018.

5 Earnings per share

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year ended 31 Dec 2017 £m
Profit attributable to the owners of the Company	**24.5**	18.7	52.4
Adjustments:			
Amortisation of intangible assets net of tax	**0.2**	0.5	1.0
Adjusted earnings	**24.7**	19.2	53.4

Basic weighted average ordinary shares (m)	**44.4**	44.0	44.1
Dilutive effect of share options and conditional shares not vested (m)	**0.9**	1.6	2.4
Diluted weighted average ordinary shares (m)	**45.3**	45.6	46.5

Basic earnings per share	**55.2p**	42.5p	118.8p
Diluted earnings per share	**54.1p**	41.0p	112.7p
Adjusted earnings per share	**55.6p**	43.6p	121.1p
Diluted adjusted earnings per share	**54.5p**	42.1p	114.8p

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 £13.37 (30 June 2017: £10.38, 31 December 2017: £12.03).

A total of 1,072,901 share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 31 December 2018 (30 June 2017: 2,263,006, 31 December 2017: 38,938).

6 Shared equity loan receivables

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
1 January	**15.6**	18.4	18.4
Net change in fair value recognised in the income statement	**0.2**	0.3	0.5
Repayments by borrowers	**(1.1)**	(1.8)	(3.3)
End of period	**14.7**	16.9	15.6

Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of properties under the scheme, and therefore the Group has developed a model for determining the fair value of the portfolio of loans based on national property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market. Details of the key assumptions made in this valuation are as follows:

	30 June 2018	30 June 2017	31 Dec 2017
Assumption			
Period over which shared equity loan receivables are discounted:			
First Buy and Home Buy schemes	**20 years**	20 years	20 years
Other schemes	**9 years**	9 years	9 years
Nominal discount rate	**5.3%**	5.4%	5.3%
Weighted average nominal annual property price increase	**2.4%**	2.3%	2.4%
Forecast default rate	**6.8%**	2.0%	4.6%
Number of loans under the shared equity scheme outstanding at the period end	**449**	543	489

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

Sensitivity analysis

At 30 June 2018, if the nominal discount rate had been 100bps higher at 6.3% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.3m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 30 June 2018, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) are discounted had been 10 years and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.4m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

7 Trade and other receivables

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
Contract assets	**236.5**	200.7	174.2
Trade receivables	**223.9**	198.9	208.0

Amounts owed by joint ventures	**1.3**	1.2	2.1
Prepayments	**18.2**	19.6	10.2
Other receivables	**8.9**	11.7	9.6
	488.8	432.1	404.1

8 Net cash

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
Cash and cash equivalents	**139.9**	112.3	221.2
Non-recourse project financing due in less than one year	**(41.5)**	(15.2)	(26.5)
Borrowings due in less than one year	**(1.5)**	-	(1.3)
Net cash	**96.9**	97.1	193.4

The non-recourse project finance borrowings were drawn from separate facilities to fund specific projects. These borrowings are without recourse to the remainder of the Group's assets.

9 Trade and other payables

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
Trade payables	**201.9**	200.1	162.0
Contract liabilities	**98.0**	60.8	58.3
Amounts owed to joint ventures	**0.2**	0.2	0.2
Other tax and social security	**23.5**	18.9	37.5
Accrued expenses	**531.9**	472.6	573.3
Deferred income	**2.7**	0.8	2.7
Other payables	**17.7**	40.1	20.1
	875.9	793.5	854.1

10 Retirement benefit asset

The Morgan Sindall Retirement Benefits Plan ('the Retirement Plan') was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The Retirement Plan also includes a defined benefit section comprising liabilities and transfers of funds representing the accrued benefit rights of active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme accrued up to 1 August 1997). No further defined benefit membership rights can accrue after those dates. The scheme duration is an indicator of the weighted-average time until benefit payments are expected to be made. For the scheme as a whole, the duration is around 15 years.

On 23 May 2018 the Trustees of the Retirement Plan completed a buy-in transaction with Aviva to insure the benefits of the Defined Benefit members. The buy-in policy is an asset of the Plan that provides payments that are an exact match to the pension payments made to the Defined Benefit members covered by the policy. The insurance policy was initially recognised as an asset at an amount equal to its cost. It was then immediately remeasured to its fair value in accordance with IAS 19, giving rise to an actuarial loss of £2.8m, leaving an accounting surplus of £0.1m.

11 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.

12 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

The directors confirm that to the best of their knowledge:

- the unaudited condensed consolidated financial statements, which have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by DTR 4.2.4R;

- 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

- 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

John Morgan **Steve Crummett**
Chief Executive **Finance Director**

8 August 2018

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