5 August 2020

MORGAN SINDALL GROUP PLC

('Morgan Sindall' or 'Group')

The Construction & Regeneration Group

RESULTS FOR THE HALF YEAR (HY) ENDED 30 JUNE 2020

This announcement contains information that qualified, or may have qualified, as inside information for the purposes of Article 17 of the Market Abuse Regulations (EU) 596/2014 (MAR). The person responsible for making this announcement is Steve Crummett, Finance Director.

	HY 2020	HY 2019	Change
Revenue	£1,363m	£1,421m	-4%
Operating profit – adjusted[1]	£18.1m	£37.5m	-52%
Profit before tax – adjusted[1]	£15.7m	£36.3m	-57%
Earnings per share – adjusted[1]	27.4p	64.2p	-57%
Period end net cash	£146m	£114m	+£32m
Interim dividend per share	-	21.0p	n/a
Operating profit - reported	£16.0m	£36.7m	-56%
Profit before tax – reported	£13.6m	£35.5m	-62%
Basic earnings per share – reported	23.7p	62.9p	-62%

[1] *'Adjusted' is defined as before intangible amortisation (£2.1m) (HY 2019: £0.8m)*

HY 2020 summary:

- Results significantly impacted by COVID-19 pandemic
  - Revenue down 4% to £1.4bn. Q1 revenue up 17%, Q2 revenue down 23%
  - Adjusted profit before tax down 57% to £15.7m
- Balance sheet strengthened. Significant available liquidity
  - Average daily net cash increased to £153m (HY 2019: £123m).
  - Period end net cash of £146m (HY 2019: £114m). In addition, committed bank facilities of £180m
- Improved visibility of the second half and full year outturn
  - Guidance for the full year reinstated. FY 2020 profit before tax expected to be in the range of £50m-£60m
  - Intention to return all payments received under the Coronavirus Job Retention Scheme during the second half

- Well set for growth beyond 2020
    - Aligned to demand for future investment, holding key market positions in UK national and social infrastructure together with affordable housing and regeneration
    - High quality and growing order book, with secured workload up 5% to £8.0bn
- No interim dividend declared at current time. The Board will actively consider the resumption of dividend payments when there is further clarity over the economic outlook and business interruption risks

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

"These results reflect the inevitable impact on our business of the COVID-19 pandemic.

The business is having to continually adapt in this changing environment and I am extremely thankful to all our employees for their professionalism and dedication as we adjust to new ways of working safely and productively.

Throughout this challenging period, the Group has demonstrated its resilience, with an improved cash position strengthening our balance sheet and providing significant available liquidity. This in turn has enabled us to maintain our focus on making the right decisions based upon the best long-term interests of the business.

Our proven strategy remains the same, based on organic growth and operational improvement. We have a balanced business geared towards future demand for affordable housing, urban regeneration and infrastructure and construction investment. Together with our high-quality secured workload, we are confident of future growth and success.

We now have greater clarity of the extent of the impact of COVID-19 on the current year's performance and on the assumption of no further significant business interruptions arising from any widespread secondary lockdown, we expect profit before tax for 2020 to be in the range of £50m-£60m."

Enquiries

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Presentation

- There will be an analyst and investor presentation followed by a Q&A, held virtually via Microsoft Teams on Wednesday 5th August at 09:00
- A copy of these results is available at: www.morgansindall.com
- The presentation will be available via playback on our website in the afternoon.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £3.1bn, employing around 6,700 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 and construction investment.

Under these two strategic lines of business, the Group is organised into six divisions as follows:

Construction activities comprise the following operations:

- ***Construction & Infrastructure***: Focused on the education, healthcare, defence, commercial, industrial, leisure and retail markets in Construction; and on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure
- ***Fit Out***: Focused on the fit out of office space with opportunities in commercial, central and local government offices and further education
- ***Property Services***: Focused on response and planned maintenance activities provided to the social housing and the wider 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' house 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 long-term strategic partnerships to develop under-utilised public land across multiple sites and generates development profits from such partnerships.

Basis of Preparation

In addition to presenting the financial performance of the business on a statutory basis, adjusted performance measures are also disclosed. These measures are not an alternative or substitute to statutory IFRS measures but are seen as more useful in assessing the performance of the business on a comparable basis and are used by management to monitor the performance of the Group. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. In all cases the term 'adjusted' excludes the impact of intangible amortisation of £2.1m (HY 2019: £0.8m).

Group Operating Review

Overview

The first half of the year has seen unprecedented challenges arising from the COVID-19 pandemic ('C-19') and during this time, the health and wellbeing of its people, partners and the public has remained the Group's overriding priority. Operationally, activity across the Group only continued where it was safe to do so, with strict adherence to Government advice and that of the devolved administrations and public health authorities across the UK.

The Group had a strong start to the year, building on the significant positive momentum carried through from 2019. In the first quarter, revenue was up 17% on the prior year.

With the onset of C-19 and the subsequent lockdown restrictions imposed across the UK in late March, trading and activity across all divisions were then significantly impacted. The Group's decentralised approach allowed significant flexibility of response and enabled each division to adopt its own specific approach to suit their employees, clients and supply chain partners' requirements in the evolving circumstances.

The extent of the operational and financial impact of C-19 on each division is included in the Divisional Review below, however Group revenue for the second quarter was down 23% on the prior year. For April alone, revenue was 35% down on the prior year. As a result, total Group revenue for the half year period decreased by 4% to £1,363m (HY 2019: £1,421m).

The gross margin impact of this lower revenue, together with additional costs arising through site closures, lower productivity on sites, and from implementing new safety processes and procedures, have impacted profitability during this period. In addition, construction delays on many of the development schemes in the regeneration activities, together with lower revenue in the mixed-tenure activity of Partnership Housing, have further reduced profit in the period.

As a result, the adjusted operating profit was down 52% to £18.1m (HY 2019: £37.5m), at an adjusted operating margin of 1.3%, down from 2.6% on the prior year. Consequently, the adjusted profit before tax was £15.7m, down 57% (HY 2019: £36.3m) and the adjusted earnings per share of 27.4p was also 57% lower (HY 2019: 64.2p)

Through the period, the Group placed a number of its employees on furlough and accessed the Government's Coronavirus Job Retention Scheme ('CJRS'). At the peak, c1,900 employees were furloughed across the Group and as at 30 June, the Group had claimed £9.3m under the CJRS, the benefit of which is reflected in the HY income statement. As at the start of August, there remained c200 employees on furlough, primarily within the Property Services and Infrastructure divisions with this number expected to reduce further through the month.

Other measures were taken across the Group to reduce discretionary costs and improve cash flow. These included the agreement of permissions to defer VAT, PAYE and other tax payments (see Balance sheet & Cash section below) and the cancellation of the 2019 final dividend. In addition, the Chair, Non-Executive Directors, Executive Directors and Senior Management Team all volunteered salary reductions of 20% for the 3 months to 30 June.

The Group's relationships with its supply chain partners are of strategic importance and its actions and behaviours towards them during these challenging times are viewed as key to the Group's future success. Consequently, the prompt payment of its suppliers has remained a major area of focus throughout the period and even more so against the current backdrop of C-19.

It is, therefore, pleasing that for the formal Payment Practices Reporting period of 1 January 2020 to 30 June 2020, Construction & Infrastructure, the largest operating division by revenue, improved its average time taken to pay invoices significantly; reducing average time to 27 days (from 32 days), with 98% of invoices paid within 60 days. Fit Out reported its average time taken to pay invoices at 21 days, broadly unchanged from previous, while Partnership Housing reported 36 days as its average time to pay. Property Services, at an average of 32 days to pay invoices, increased only slightly from the previous reporting period.

The future success of the Group is also determined by the quality of the secured workload and the discipline across the Group to maintain contract selectivity irrespective of economic conditions. Looking ahead, preserving the appropriate risk balance within the order book is critical to future success. Despite certain delays to decision-making in progressing projects across some clients, both public and private sector, the Group had a successful period of winning new work, with the total secured workload at the period end of £7,962m, up 5% from the year end.

Balance sheet & Cash

The Group remains in a strong financial position. The average daily net cash for the period was £153m (of which £60m was held in jointly controlled operations or held for future payment to designated suppliers (JVs/PBAs)), up from £123m in the prior year period. For the second quarter (April-June), the average daily net cash was £175m (including £60m in JVs/PBAs).

During the period, the Group took advantage of permissions to defer VAT, PAYE and other tax payments which together increased the average daily net cash position in the first half by c£22m.

Net cash as at 30 June was £146m (including £58m in JVs/PBAs). At the period end, all PAYE liabilities and other tax deferrals were fully up to date, with the exception of VAT payments totalling £21m which have been deferred to March 2021.

The Group has committed bank facilities of £180m extending out to 2022, which together with the net cash balance, provide a significant amount of total available liquidity. In addition, and as an additional precautionary measure, the Group was also confirmed by the Bank of England as an eligible issuer for the Covid Corporate Financing Facility (CCFF). No drawings have been made on this facility and the Group does not anticipate the need to utilise the CCFF scheme.

Looking ahead, the impact of the lower activity in the second quarter due to C-19 is expected to be reflected in lower cash balances across the second half, which together with the continued planned investment in Partnership Housing, will reduce the average daily position for the year. However, based upon current anticipated cash flows and investment plans, the Group expects that the average daily net cash for the full year will be well over £100m.

As noted above, the Group received the benefit of £9.3m under the CJRS during the period, which facilitated the safeguarding of many jobs during the period of maximum impact of C-19. As the Group's financial position has remained robust and resilient throughout the period, it is now intended that all payments received under the CJRS are returned during the second half and no claims will be made in future for any bonus payments eligible under the scheme. The repayment of such amounts will be charged through Central costs.

Dividend

The Board considers the dividend to be a very important component of shareholder returns. As previously noted, in light of the economic uncertainty brought about by C-19, the Board announced that it had decided to cancel the final dividend for 2019 which was due for approval at the AGM in May 2020.

The Board has taken into consideration the interests of all stakeholders and concluded that there remains sufficient market uncertainty so as not to commit to an interim dividend at the current time. The Group has a strong liquidity position and the Board will actively consider the resumption of dividend payments when there is further clarity over the economic outlook and business interruption risks.

Outlook

The Group's strategy remains the same, based on organic growth and operational improvement and a balanced business geared towards future demand for affordable housing, urban regeneration and infrastructure and construction investment. Together with the high-quality secured workload, there is confidence of future growth and success.

There is now greater clarity of the extent of the impact of C-19 on the current year's performance and on the assumption of no further significant business interruptions arising from any widespread secondary lockdown, profit before tax for 2020 is expected to be in the range of £50m-£60m. This includes the repayment of all amounts received under the CJRS, which will be charged through Central costs in the second half.

Divisional Review

The following Divisional 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	789	+16%	11.5	-17%	1.5%	-50bps
Fit Out	317	-22%	10.9	-34%	3.4%	-60bps
Property Services	53	-4%	(0.5)	-131%	-0.9%	-380bps
Partnership Housing	165	-31%	3.0	-53%	1.8%	-90bps
Urban Regeneration	35	-20%	2.1	-75%	n/a	n/a
Investments	12	n/a	(3.2)	n/a	n/a	n/a
Central/Eliminations	(8)		(5.7)			
Total	**1,363**	**-4%**	**18.1**	**-52%**	**1.3%**	**-130bps**

Group secured workload[1] by division

The Group's secured workload[1] at 30 June 2020 was £7,962m, an increase of 5% from the previous year end. The divisional split is shown below.

	HY 2020 £m	FY 2019 £m	Change
Construction & Infrastructure	2,548	2,271	+12%
Fit Out	466	480	-3%
Property Services	867	904	-4%
'Construction' secured order book[2]	**3,881**	**3,655**	**+6%**
Partnership Housing	1,234	1,093	+13%
Urban Regeneration	2,278	2,278	-
Investments	576	581	-1%
'Regeneration' secured order book[2]	**4,088**	**3,952**	**+3%**
Inter-divisional eliminations	(7)	(14)	
Group secured workload[1]	**7,962**	**7,593**	**+5%**

[1] The Group secured workload is the sum of the Construction secured order book and the Regeneration secured order book, less any inter-divisional eliminations.

[2] The 'Secured order book' is the sum of the 'committed order book', the 'framework order book' and (for the Regeneration businesses only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes).

The 'committed 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.

Construction & Infrastructure

	HY 2020 £m	HY 2019 £m	Change
Revenue	789	679	+16%
Operating profit	11.5	13.9	-17%
Operating margin	1.5%	2.0%	-50bps

During the period, revenue increased by 16% to £789m, however operating profit reduced 17% to £11.5m. The operating margin was down 50bps to 1.5%.

While ***Construction***[1] was significantly impacted by C-19, ***Infrastructure***[1](which includes *Design*) fared relatively well and made significant positive progress with its volume and margin.

Of the divisional revenue split by type of activity, ***Construction***[1] increased 2% to £290m (37% of divisional revenue), while ***Infrastructure***[1] increased 26% to £499m (63% of divisional revenue).

Construction's[1] operating margin reduced significantly, down to 0.4% (HY 2019: 2.2%), with its operating profit down to £1.2m. ***Infrastructure***[1] delivered operating profit of £10.3m, an increase of 37% which was driven mainly by revenue growth, but also improved efficiency and work mix. Its operating margin of 2.1% was up 20bps from the prior year.

Impact of C-19 on operations

(i) Construction

At the 'peak' impact of the lockdown measures, c31% of sites were closed completely (c15% by value), with the remainder impacted by significant productivity constraints.

Most impacted were the construction sites in Scotland, which remained closed in accordance with the lockdown regulations imposed by the Scottish Government. There were no other significant geographical variations to site closures.

Productivity remained a challenge throughout the period. The limited availability of certain building materials on site eased from May onwards as manufacturers recommenced their own production. The adoption of the necessary revised site safety operating procedures created additional challenges according to the location and size of the project site.

The operational impact on projects was broadly determined by the stage of construction, with a relatively low impact on projects at an earlier stage of construction (groundwork, piling, demolition etc), while those most impacted were projects at the final stages of construction.

The business is contractually entitled to 'time and costs' as a result of the closures and delays to programmes for approximately 45% of its contracts. For the other 55%, the contractual entitlement is for 'time' only, with any additional costs incurred being the business's liability. Such costs would include the costs of inefficiency through demobilising and remobilising sites, reduced productivity and direct costs associated with additional PPE (Personal Protection Equipment) and implementing social distancing regulations on sites.

As at 30 June, 100% of sites were open and active, operating at an estimated average 90% of productivity compared to pre-C-19 levels. This had improved to c95% of pre-C-19 productivity levels by the end of July.

The maximum number of employees on furlough at any one time during the period was 252 (23% of total). At the start of August, 10 employees remained on furlough.

(ii) Infrastructure

At the 'peak' impact of the lockdown measures, c61% of sites were closed completely (59% by value), however in many cases, the period of closure for a reassessment of safety procedures was relatively short, allowing many sites to reopen and maintain reasonable activity levels.

With c90% of the business's revenue being derived through public sector frameworks or from regulated bodies, the publication of the Government's 'Public Procurement Note (PPN) 02/20: Supplier relief due to coronavirus' which provided guidance for public bodies on the payment of their suppliers to ensure service continuity, was a significantly positive development which supported the continuity of operations across many of the division's sites.

In the Aviation sector, all ongoing projects at Heathrow were immediately curtailed. With minimal future work now expected during the second half of 2020 and 2021 (the final year of the framework) resources are being re-deployed elsewhere where possible.

In Nuclear, there have been C-19 restrictions across the whole Sellafield site, disrupting works on the Infrastructure Strategic Alliance. However, after an initial pause, early works on the 20-year Sellafield Programme and Project Partners (PPP) framework have progressed well.

Most of the business's contracts allow an entitlement to 'time and costs' as a result of the closures and delays to programmes.

As at 30 June, 93% of sites were open and active (c99% by value), operating at an estimated average 80% of productivity compared to pre-C-19 levels. This had improved to c90% of pre-C-19 productivity levels by the end of July.

The maximum number of employees on furlough at any one time during the period was 428 (18% of total). Less than 100 employees remained on furlough at the start of August.

Secured order book

The division performed well in terms of winning work and growing its future workload. The secured order book at the period end was £2,548m, up 12% compared to the year-end position.

(i) Construction

Construction's[1] order book increased by 8% to £554m (22% of total division). Of the total, £322m (58%) is secured for the second half of the year, £212m (38%) for 2021 and the remainder (4%) for 2022 and beyond.

The risk balance and profile within the Construction order book has been maintained, with 99% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 1% derived through competitive tenders. In addition, ***Construction***[1] had c£620m of work at preferred bidder stage at the period end.

Work won in the period included a £46m residential development for Urban Regeneration (through its joint venture) as part of the wider New Bailey development in Manchester, two schools for the City of Edinburgh totalling £24m, a £37m school for Urban and Civic in Rugby and a £46m Engineering Block for Salford University. In the period, Construction was also appointed onto Lot 1 (£10m-£30m) and Lot 2 (£30m+) of the £1.5bn YORbuild framework as well as re-securing a place on the £0.5bn Scottish Hub South West Framework.

(ii) Infrastructure

Infrastructure's[1] order book grew strongly, up 13% to £1,994m (78% of total division). In excess of 90% of the order book value is derived through existing frameworks and with 58% of the order book for 2022 and beyond, this demonstrates the long-term nature of the work streams and client relationships.

The focus remains on the key sectors of highways, rail, nuclear, energy and water. As detailed above, the aviation business (FY 2019: revenue of c£65m) was significantly impacted in the period and any future workload is likely to be minimal.

Work won in the period includes the appointment by Highways England, through joint venture, as one of six partners in the £4.5bn Smart Motorway Alliance, a newly created alliance to transform the delivery of smart motorways and shape the digital roads of the future. In Rail, work commenced on the first scheme as part of Network Rail's CP6 framework in the Western Region, while in Water, the division was awarded and has commenced work on AMP 7 schemes with Welsh Water.

2020 Outlook

Construction's performance is expected to improve throughout the second half and its full year margin is expected to be no less than 1%.

Infrastructure is expected to continue working through its high-quality workload and is well set to make progress towards its targeted margin of 3% for the full year.

[1] *Design* results are reported within *Infrastructure* on the basis that the design activities are better aligned to the overall services provided by the Infrastructure activities. In HY 2019 and prior years, *Design* results were reported within *Construction* and comparative numbers for HY 2019 for *Construction* and *Infrastructure* have been restated accordingly.

<u>Fit Out</u>

	HY 2020 £m	**HY 2019 £m**	**Change**
Revenue	317	407	-22%
Operating profit	10.9	16.4	-34%
Operating margin	3.4%	4.0%	-60bps

Although Fit Out's revenue was down 22% to £317m, the operating margin remained robust at 3.4%, with operating profit of £10.9m demonstrating the overall resilience and high quality of the business.

Geographically, the London region remained the division's largest market, accounting for 80% of revenue, up from 69% in the prior year. Other regions accounted for 20% of revenue (HY 2019: 31% of revenue).

The proportion of revenue generated from the fit out of existing office space was 70% (HY 2019: 74%) with the remaining 30% relating to new office fit out (HY 2019: 26%). Of the fit out of existing office space, 69% related to refurbishment 'in occupation'.

88% of revenue related to traditional fit out work (HY 2019: 81%), while 12% related to 'design and build' (HY 2019: 19%).

By sector, the commercial office market remained the largest, contributing 77% of revenue (HY 2019: 86%). Government, higher education and retail banking accounted for the majority of the remainder.

Impact of C-19 on operations

At the 'peak' impact of the lockdown measures, 53% of sites were closed (40% by value).

In London, where many sites were initially closed at the client's request, activity was restored relatively quickly, benefiting from most sites being contained within vacated buildings. In addition, the established and preferred relationships built up with its supply chain over many years enabled prompt and efficient remobilisation of teams at short notice and with immediate responsiveness.

Most impacted were the projects based out of the Northern business in Manchester, which covers clients geographically spread up to Scotland. At the 'peak' impact, 92% of the Northern sites were closed.

With much of the division's work being for clients whilst 'in occupation', empty offices and more flexible working hours have enabled the division to implement social distancing and revised site safety operating procedures relatively easily and quickly. In many situations, the business was able to accelerate its fit out programmes.

The average size of project within Fit Out is c£2m, with an average duration of c12 weeks. Most of the division's contracts allow for 'time' only, with any additional costs incurred being the division's liability. In many cases, the accelerated programmes achieved through uninhibited access to buildings, has offset any additional costs incurred.

As at 30 June, 100% of sites were open and active, operating at an estimated average 75% of productivity compared to pre-C-19 levels. This had improved to in excess of 95% of pre-C-19 productivity levels by the end of July.

The maximum number of employees on furlough at any one time during the period was 186 (22% of total). There were no employees remaining on furlough at the start of August.

Secured order book

At the period end, the secured order book was £466m, a reduction of 3% on the prior year end position and in line with the position at the last half year. Of the secured order book, £318m (68%) relates to the second half of the year. The equivalent amount as at 30 June 2019 which related to the second half of 2019 was only slightly higher at £331m and on this basis, the division has broadly the same level of visibility of second half volumes as it did at the same time last year.

Of the remainder, 30% of the order book (£139m) relates to 2021 with the balance for 2022. This compares favourably to £133m of secured orders at the same time last year for 2020.

Projects won in the period include the fit out of 123,000 sq ft of office space for the Boston Consulting Group (BCG) in London; a 45 week project for St Martins Property Investment Ltd at Hays Galleria, London; multiple projects under a framework for The Mayor's Office for Policing and Crime (MOPAC) in London; the design and fit of c25,000 sq ft of office space for WaterAid in Canary Wharf, London; and a 170,000 Category A fit out for Lexo Ltd in Peterborough.

2020 outlook

The first half has demonstrated the quality and resilience of Fit Out. Based on its current workload and order book visibility (and assuming no further significant business interruption), Fit Out is expected to deliver a profit up towards c£30m for the full year.

Property Services

	HY 2020 £m	HY 2019 £m	Change
Revenue	53	55	-4%
Operating (loss)/profit[1]	(0.5)	1.6	-131%
Operating margin[1]	-0.9%	2.9%	-380bps

Property Services made a loss in the period of £0.5m from revenue of £53m, down 4% on the prior year.

At the start of the period in January and February, the division was operating at a run rate of c£12m revenue per month. Cumulatively at the end of February, revenue was 37% ahead of the prior year. The operating structure and overheads were set accordingly to deliver this level of volume on its contracts.

With the impact of C-19 reducing the services provided to mainly 'essential' repairs only, the significantly lower volume was insufficient to cover the overheads in the division, resulting in the small loss for the period.

Impact of C-19 on operations

In advance of the formal lockdown announcement, the division in conjunction with its clients, had already started to reduce response maintenance services and any planned and voids work, based on the risk assessment of operatives entering tenant's dwellings.

At the 'peak' impact of the lockdown measures, 21% of the division's contracts had ceased all activity. Other contracts remained active, although with much reduced volume levels.

As at 30 June, 94% of contracts were active, running at c70% of normal volumes. It is expected that all contracts will have remobilised and be back to near 100% of pre-C-19 volume levels by October.

The maximum number of employees on furlough at any one time during the period was 415 (57% of total). There remained less than 100 employees on furlough at the start of August and this number is expected to reduce further as contracts remobilise.

Secured order book

During the period, the division has continued to focus on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through integrated contracts with housing associations and local authorities. At the period end, the secured order book was £867m, down 4% from the year end.

Subsequent to the period end, the division has been successful in securing preferred bidder status on the following contracts with a combined value of £171m. These will only be included in the order book upon entering final contract:

(i) Two contracts for Hammersmith and Fulham Council - a housing repairs contract and domestic and communal gas contract, both for an initial 5 years with the potential to extend for a further 2 years and;

(ii) a contract with Home Group Housing Association to maintain 4,500 properties. The division will deliver responsive repairs, void refurbishments, heating services and planned improvement works such as kitchen and bathroom replacement and heating system upgrades.

2020 outlook

Property Services is expected to continue to remobilise its contracts across the second half and it is expected that the normal 'run-rate' of activity will be achieved by the fourth quarter. On this basis, the division is expected to deliver a modest profit for the full year.

[1] before intangible amortisation of £0.6m (HY 2019: £0.8m)

Partnership Housing

	HY 2020 £m	HY 2019 £m	Change
Revenue	165	238	-31%
Operating profit	3.0	6.4	-53%
Operating margin	1.8%	2.7%	-90bps
Average capital employed[1] (last 12 months)	151.7	136.8	+£14.9m
Capital employed[1] at period end	153.5	155.6	-£2.1m
ROCE[2] (last 12 months)	10%	10%	

Partnership Housing revenue was down 31% on the prior year to £165m. While the first quarter revenue was up 11% on prior year, the second quarter fell significantly by 60%, reflecting the impact of C-19.

Split by type of activity, ***Mixed-tenure*** revenue was down 15% to £89m (54% of divisional revenue) while ***Contracting*** revenue (including planned maintenance and refurbishment) was down 43% on the prior year period to £76m (46% of divisional total).

In ***Mixed-tenure***, 412 units were completed across open market sales and social housing compared to 493 in the prior year period, a reduction of 16%. The average sales price was £217k (HY 2019: £214k).

Operating profit of £3.0m was 53% down on prior year, with the operating margin down to 1.8%. Besides from the additional costs and lower unit completions from C-19, the result also includes the £2.0m non-cash impairment of the division's investment in a small joint venture developer of supported independent living accommodation. The impairment reduces the carrying value of the investment to zero and was as a result of scheme delays and the expiry of longstop dates on schemes, some of which can be attributed to C-19.

Excluding the impairment, the underlying operating profit would reflect a reduction of 22% on the prior year, however at an improved margin of 3.0%, which represents an increase of 30bps on the prior year (HY 2019: 2.7%).

The capital employed[1] at period end was £153.5m. This was an increase of £21.2m on the year end position of £132.3m and a reduction of £2.1m on the prior year period end. The average capital employed[1] for the last 12-month period was £151.7m and the ROCE[2] for the last 12-month period remained level at 10%.

Impact of C-19 on operations

At the 'peak' impact of the lockdown measures, 93% of sites were closed (91% by value).

Upon the lockdown announcement, most construction sites started to demobilise, both mixed-tenure and contracting sites. The effective closure of the UK housebuilding industry and its associated supply chain resulted in an inability to maintain operations. Sales offices also closed in line with lockdown regulations.

From early May, sites started to remobilise, with the limited availability of certain building materials on site easing through the month as manufacturers recommenced their own production. Operations adopted the necessary revised site safety operating procedures.

In ***Contracting***, most contracts allow for 'time' only, with any additional costs incurred on demobilising/remobilising/additional safety procedures being the division's liability. In ***Mixed-Tenure***, in addition to lost profit from lower unit completions, additional costs incurred will reduce the profit per unit.

Sales offices reopened in England in mid-May, with those in Scotland/Wales reopening in June. As at 30 June, 100% of sites were open and active again, operating at an estimated average 80% of productivity compared to pre-C-19 levels. This had improved to c95% of pre-C-19 productivity levels by the end of July.

The maximum number of employees on furlough at any one time during the period was 586 (67% of total). There were no employees remaining on furlough at the start of August.

Secured order book

The secured order book at the period end was £1,234m, an increase of 13% on the year-end position and further demonstrated the market opportunity available to the division.

Of this total, the ***Mixed-tenure*** activities increased by 24% to £918m and in addition to this, the amount of mixed-tenure business in preferred bidder status or already under development agreement but where land has not been drawn down was in excess of £600m. On the ***Contracting*** side, the order book reduced by 11% to £316m.

Key project wins in the period include deals worth £140m with Homes England to provide 532 new homes at two former Ministry of Defence sites in Yorkshire and Wiltshire - 119 of these at Thorp Arch near Wetherby, with 413 homes at Drummond Park in Luggershall, Wiltshire. In addition, the two sites in South Wales at Coed Darcy and Llanwern have a combined development value of £130m and will deliver more than 660 units.

2020 outlook

The second half is expected to see higher levels of construction activity across its sites and higher unit completions, with profit for the full year expected to be up towards its prior year result. In addition, increased investment in existing developments is expected and based upon the current profile, the average capital employed[1] for the full year is expected to be c£165m.

[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 2020 £m	HY 2019 £m	Change
Revenue	35	44	-20%
Operating profit	2.1	8.3	-75%
Average capital employed[1] (last 12 months)	109.7	105.3	+£4.4m
Capital employed[1] at period end	117.3	97.5	+£19.8m
ROCE[2] (last 12 months)	12%	19%	
ROCE[2] (average last 3 years)	14%	14%	

Urban Regeneration delivered an operating profit of £2.1m (HY 2019: £8.3m), resulting in the average return on capital[2] over the last three years remaining level at 14%.

Capital employed[1] at the period end was £117.3m, which represented an increase of £9.6m from the year end position of £107.7m and an increase of £19.8m over the prior year period end.

The main contributors to performance were the Group's share of joint venture profit and development fees generated from the Salford Central regeneration scheme, being developed by The English Cities Fund (a joint venture with Legal & General and Homes England), where six new developments are currently under construction; profit from the pre-let and forward sale of three separate warehouse and distribution buildings at Logic Leeds and a land sale at Eurocentral in Scotland.

In addition, development management fees were generated from Lewisham Gateway, Warrington's Time Square development and the second phase of the Stockport Exchange development. Profits were also earned from the sale of new homes in Brentford, Tottenham Hale, Stockton-on-Tees and Plymouth.

Impact of C-19 on operations

The impact of COVID-19 was felt across all stages of the development process.

Construction activity on most of the active development schemes either ceased for a period or activity was significantly reduced. At the 'peak' impact of the lockdown measures, 33% of sites were closed completely.

As a consequence, development management fees received from such schemes (which accrue in line with construction activity) were lower. In addition, where forecast profit from schemes included the sale of residential units either already completed or off-plan, the delayed construction progress and closure of sales offices in the period impacted profit.

In progressing the pipeline of new development schemes, delays were experienced in decision-making, with potential forward funders and contractors for schemes re-evaluating their positions amid concerns over future costs, viability and returns.

As at 30 June, 100% of construction sites in Urban Regeneration's development schemes were open and active again.

Secured order book

The secured order book at the period end was £2,278m, level with the year-end position.

Due to the nature of the regeneration business, the order book is long term and has a diverse geographic and sector split:

- c70% by value is for 2022 and beyond, with projects stretching out to 2030;
- by sector, 54% by value relates to residential, 30% to offices, with the remainder split between retail, leisure, and industrial;
- by geography, 49% is in the South East and London, 34% in the North West, 14% in Yorkshire and the North East, and 3% in the rest of the UK.

In terms of progress with its existing schemes, the division agreed two forward funding deals subsequent to the period end.

Firstly, a £252m forward funding deal was signed to deliver the second and final phase of its Lewisham Gateway scheme. Once complete, the scheme will provide 649 homes for rent, c.25,000 sq ft of retail space, c.15,000 sq ft of food and beverage space, a gym, 10,000 sq ft of offices and Lewisham's first major multiplex cinema which has been pre-let. Completion is anticipated in 2023; and secondly, a forward funding deal was agreed to commence with the first phase of the £185m 'New Victoria' scheme in Manchester city centre, in partnership with Network Rail with support from Manchester City Council and Homes England. Adjacent to Manchester Victoria train station, the first phase of the scheme is for 450,000 sq ft of residential development, with completion expected in 2023.

In addition and not yet included in the secured order book, the division was appointed, through its English Cities Fund joint venture with Legal & General and Homes England, as the development partner for the £2.5bn Salford Crescent masterplan, with the joint venture now leading on the creation of a new 240-acre district in Salford over the next 10 to 15 years.

2020 Outlook

Further progress with the division's regeneration order book is expected in the second half, however the full year result will remain significantly below the prior year.

Based upon the current profile and type of scheme activity across the portfolio, the average capital employed[1] for the full year is expected to be c£110m.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles inter-company financing and cash) less total liabilities (excluding corporation tax, deferred tax, and overdrafts)
[2] Return On Average Capital Employed = (Adjusted operating profit less interest on non-recourse debt) divided by (average capital employed). Interest and fees on non-recourse debt in the last 12 months was £nil (LTM HY 2019: £1.3m)

Investments

	HY 2020 £m	HY 2019 £m	Change
Operating loss[1]	(3.2)	(0.9)	n/a

Investments made a loss of £3.2m in the period compared to a loss of £0.9m in the prior year.

Impact of C-19 on operations

The two main areas of C-19 impact were delays to construction activity on existing development schemes and delays to achieving financial close on new schemes as investment decisions were deferred.

At the 'peak' impact of the lockdown measures, 55% of construction sites on its development schemes were closed completely. As at 30 June, 100% were open and active again.

Secured order book

The secured order book is spread across the division's four public sector joint venture property partnerships and the Later Living business. At the period end, the secured order book was £576m, a decrease of 1% on the year end position.

In the division's joint venture with Slough Borough Council, the construction of two Marriott hotels and 64 apartments on the site of the former library continued to advance, with the works on the £55m scheme being delivered by Construction & Infrastructure.

In The Bournemouth Development Company joint venture with BCP Council, planning consent was secured for 44 apartments, with work expected to start on site later in the year, and construction continued on 46 high quality homes for market rent. Winter Gardens, a mixed-use scheme with a Gross Development Value of £164m, concluded its section 106 agreement and is progressing towards a start on site at the end of the year.

In Chalkdene Developments, the division's joint venture with Hertfordshire County Council, construction work continued on a 21-home development in Welwyn Garden City, which is being delivered by Partnership Housing.

In the Later Living business, six projects were on site across the UK which together will provide over 400 extra care apartments. It also continued to progress projects in its pipeline, securing a planning consent for a 64-apartment extra care scheme in Leeds, its second in the city.

2020 Outlook

Based upon the current profile of scheme developments and the impact of delays in the first half, Investments is expected to broadly break-even in the second half.

[1] before intangible amortisation of £1.5m (HY 2019: nil)
[2] 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).

Other Financial Information

1. Net finance expense. Net finance expense was £2.4m, a £1.2m increase versus HY 2019 due primarily to interest payable from drawing down on the committed bank facilities as a precautionary measure in March, during the early stages of C-19. As at 30 June, £60m was still drawn on the facilities.

	HY 2020 £m	HY 2019 £m	Change £m
Interest payable on drawings on bank facilities	(1.1)	-	(1.1)
Amortisation of bank fees & non-utilisation fees	(0.5)	(0.8)	0.3
Interest expense on lease liabilities	(0.8)	(0.8)	-
Interest from JVs	0.2	0.5	(0.3)
Other	(0.2)	(0.1)	(0.1)
Total net finance expense	**(2.4)**	**(1.2)**	**(1.2)**

2. Tax. A tax charge of £2.9m is shown for the period (HY 2019: £7.2m).

	HY 2020 £m	HY 2019 £m
Profit before tax	13.6	35.5
Less: share of net losses/(profits) in joint ventures where taxed[1]	0.3	(0.2)
Profit before tax excluding joint ventures	**13.9**	**35.3**
Statutory tax rate	19.0%	19.0%
Current tax charge at statutory rate	**(2.6)**	**(6.7)**
Other adjustments	(0.3)	(0.5)
Tax charge	**(2.9)**	**(7.2)**

[1] Most of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture. Profits already taxed in the joint venture are eliminated for these purposes

3. Net working capital. 'Net Working Capital' is defined as 'Inventories plus Trade & Other Receivables (including Contract Assets), less Trade & Other Payables (including Contract Liabilities)' adjusted as below and is stated on a constant currency basis.

	HY 2020 £m	HY 2019 £m	Change £m
Inventories	352.9	355.6	-2.7
Trade & Other Receivables[1]	410.9	514.8	-103.9
Trade & Other Payables[2]	(813.6)	(907.5)	+93.9
Net working capital	**(49.8)**	**(37.1)**	**-12.7**

[1] Adjusted to exclude capitalised arrangement fees of £0.4m (HY 2019: £0.8m) and accrued interest receivable of £0.1m (HY 2019: £nil)
[2] Adjusted to exclude accrued interest payable of £0.4m (HY 2019: £0.1m)

4. Cash flow. The operating cash flow for the 12 months to 30 June 2020 was an inflow of £94.7m and a free cash inflow of £73.4m. For the half year period to 30 June 2020, there was an operating cash outflow of £15.3m.

	HY 2020 £m	HY 2019 £m	Last 12 months
Operating profit - adjusted	**18.1**	**37.5**	**73.7**
Depreciation	11.3	10.2	22.4
Share option expense	0.1	3.2	2.8
Movement in fair value of shared equity loans	-	-	0.4
Share of net loss/(profit) of joint ventures	0.3	(2.1)	(4.1)
Other operating items [1]	6.6	4.4	11.6
Change in working capital [2]	(42.1)	(116.6)	12.6
Net capital expenditure (including repayment of finance leases)	(9.8)	(11.6)	(28.3)
Dividends and interest received from joint ventures	0.2	0.4	3.6
Operating cash flow	**(15.3)**	**(74.6)**	**94.7**
Income taxes paid	(13.2)	(5.4)	(20.6)
Net interest paid (non-joint venture)	(1.1)	(1.0)	(0.7)
Free cash flow	**(29.6)**	**(81.0)**	**73.4**

[1] 'Other operating items' includes impairment of investments (£2.7m), provision movements (£1.7m), shared equity redemptions (£1.5m), disposal of investment properties (£1.3m) less gain on disposals of property, plant & equipment (£0.6m)

[2] The cash flow due to change in working capital for the 12 month period excludes £0.7m of non-cash movement relating to the unwind of discounting on land creditors less £0.6m exchange differences)

5. Net cash. Net cash at period end was £146.1m.

	£m
Net cash as at 1 January 2020	**192.7**
Free cash flow (as above)	(29.6)
Dividends	-
Other[1]	(17.0)
Net cash as at 30 June 2020	**146.1**

[1] 'Other' includes net loan payments to JVs (£11.7m), purchase of shares in the Company by the employee benefit trust (£9.4m) less proceeds from the issue of new shares (£3.7m) and proceeds from the exercise of share options (£0.4m).

6. Capital employed by strategic activity. An analysis of the capital employed in the **Construction** activities shows a decrease of £2.5m since the prior period, split as follows:

Capital employed[1] in Construction	**HY 2020 £m**	**HY 2019 £m**	**Change £m**
Construction & Infrastructure	(204.8)	(205.1)	+0.3
Fit Out	(19.7)	(23.4)	+3.7
Property Services	9.4	15.9	-6.5
	(215.1)	**(212.6)**	**-2.5**

An analysis of capital employed in the **Regeneration** activities shows an increase of £17.7m since the prior period, split as follows:

Capital employed[1] in Regeneration	**HY 2020 £m**	**HY 2019 £m**	**Change £m**
Partnership Housing	153.5	155.6	-2.1
Urban Regeneration	117.3	97.5	+19.8
	270.8	**253.1**	**+17.7**

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

In addition, capital employed in **Investments** was £27.8m (HY 2019: £33.8m).

7. Dividends. The Board has taken into consideration the interests of all stakeholders and concluded that there remains sufficient market uncertainty so as not to commit to an interim dividend at the current time.

8. Principal risks. The Group has a clear and established risk management framework in place designed and operated to identify, control and mitigate any threat to the Group achieving its goals. The risks, including details of the mitigations taken to manage them, have been assessed by the Board, particularly the impact of C-19 on current and future business activity.

The impact of C-19 and actions taken in response by the Group and its divisions are detailed in the Group Operating Review, Outlook and Divisional Review sections of this statement, including those taken to preserve cash and return to safe operation.

Details of the Group's principal risks are set out on pages 23 to 32 of its 2019 annual report. The current assessment is that these are all still applicable for the remainder of 2020, with C-19 having heightened the overall outlook and the following in particular:

Changes in the economy - that could impact the markets in which the Group operates, although these markets are believed to be sustainable and structurally secure over the medium to longer term. Should the macro position dictate, the Group's decentralised approach allows it the flexibility to reshape and respond quickly.

UK housing market - current sales in the Group's Regeneration divisions point to sustainable short-term demand. The Group's market position, its schemes with public sector partners and access to gap funding all support its model (even if average selling prices should fall). This is underpinned by a UK-wide demand for an affordable product and political pressure to deliver.

Information technology - the Group has invested significantly in IT, allowing its teams to work remotely and remain protected against a backdrop of significant UK cyber activity. It expects this activity to increase and remains focused on ensuring that appropriate protection and recovery strategies are in place.

Brexit **-** C-19 dominates the macroeconomic position although specific issues such as the availability of certain materials will be monitored during Q3/Q4 for signs of stress.

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 2020

	Notes	**Six months to 30 June 2020 (unaudited) £m**	Six months to 30 June 2019 (unaudited) £m	Year ended 31 Dec 2019 (audited) £m
Revenue	2	**1,363.1**	1,421.4	3,071.3
Cost of sales		**(1,225.3)**	(1,267.4)	(2,739.9)
Gross profit		**137.8**	154.0	331.4
Administrative expenses		**(119.4)**	(122.4)	(249.2)
Share of net (loss)/profit of joint ventures		**(0.3)**	2.1	6.5
Other gains and losses		**-**	3.8	4.4
Operating profit before amortisation of intangible assets		**18.1**	37.5	93.1
Amortisation of intangible assets		**(2.1)**	(0.8)	(1.8)
Operating profit		**16.0**	36.7	91.3
Finance income		**0.6**	0.9	1.7
Finance costs		**(3.0)**	(2.1)	(4.4)
Profit before tax		**13.6**	35.5	88.6
Tax		**(2.9)**	(7.2)	(17.4)
Profit for the period		**10.7**	28.3	71.2
Attributable to:				
Owners of the Company		**10.7**	28.3	71.2
Earnings per share				
Basic	5	**23.7p**	**62.9p**	157.9p
Diluted	5	**23.0p**	**60.3p**	153.1p

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 2020

	Six months 30 June (unaudited) £m	Six months to 30 June 2019 (unaudited) £m	Year ended 31 Dec 2019 (audited) £m
Profit for the period	**10.7**	28.3	71.2
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operation	**0.2**	(0.1)	(0.2)
Gains arising during the period on net investment hedge	**0.5**	-	-
	0.7	(0.1)	(0.2)
Other comprehensive income/(expense)	**0.7**	(0.1)	(0.2)
Total comprehensive income	**11.4**	28.2	71.0
Attributable to:			
Owners of the Company	**11.4**	28.2	71.0

Condensed consolidated balance sheet
At 30 June 2020

	Notes	**30 June 2020 (unaudited) £m**	30 June 2019 (unaudited) £m	31 Dec 2019 (audited) £m
Assets				
Goodwill and other intangible assets		**222.1**	216.8	223.6
Property, plant and equipment		**72.9**	71.7	79.5
Investment property		**3.8**	5.5	5.1
Investments in joint ventures		**94.1**	78.1	84.3
Other investments		**0.2**	1.3	1.3
Shared equity loan receivables	6	**6.9**	11.0	8.4
Non-current assets		**400.0**	384.4	402.2
Inventories		**352.9**	355.6	338.1
Contract assets		**199.6**	264.7	186.8
Trade and other receivables	7	**211.8**	250.9	275.7
Current tax assets		**0.7**	-	-
Cash and cash equivalents	8	**206.1**	115.5	192.7
Current assets		**971.1**	986.7	993.3
Total assets		**1,371.1**	1,371.1	1,395.5
Liabilities				
Contract liabilities		**(50.6)**	(87.2)	(56.2)
Trade and other payables	9	**(759.6)**	(804.8)	(832.4)
Current tax liabilities		**-**	(7.4)	(9.6)
Lease liabilities		**(12.3)**	(11.6)	(12.8)
Borrowings	8	**(60.0)**	(1.6)	-
Provisions		**(7.5)**	-	(7.1)
Current liabilities		**(890.0)**	(912.6)	(918.1)
Net current assets		**81.1**	74.1	75.2
Trade and other payables		**(3.8)**	(15.6)	(3.8)
Lease liabilities		**(43.1)**	(44.1)	(46.9)
Deferred tax liabilities		**(8.1)**	(12.2)	(8.1)
Provisions		**(23.1)**	(26.2)	(21.8)
Non-current liabilities		**(78.1)**	(98.1)	(80.6)
Total liabilities		**(968.1)**	(1,010.7)	(998.7)
Net assets		**403.0**	360.4	396.8
Equity				
Share capital		**2.3**	2.3	2.3
Share premium account		**42.2**	38.4	38.5
Other reserves		**(0.1)**	(0.7)	(0.8)
Retained earnings		**358.6**	320.4	356.8
Equity attributable to owners of the Company		**403.0**	360.4	396.8
Total equity		**403.0**	360.4	396.8

Condensed consolidated cash flow statement
For the six months ended 30 June 2020

	Notes	**Six months 30 June (unaudited) £m**	Six months to 30 June 2019 (unaudited) £m	Year ended 31 Dec 2019 (audited) £m
Operating activities				
Operating profit		**16.0**	36.7	91.3
Adjusted for:				
Amortisation of intangible assets		**2.1**	0.8	1.8
Share of net loss/(profit) of equity accounted joint ventures		**0.3**	(2.1)	(6.5)
Depreciation		**11.3**	10.2	21.3
Share option expense		**0.1**	3.2	5.9
Gain on disposal of interest in joint ventures		**-**	(3.8)	(4.4)
Gain on disposal of property, plant and equipment		**(0.6)**	(0.1)	(0.2)
Revaluation of investment properties		**-**	-	0.4
Movement in fair value of shared equity loan receivables	6	**-**	-	0.4
Adjustment for impairment of investments		**2.7**	-	-
Disposals of investment properties		**1.3**	0.2	-
Repayment of shared equity loan receivables	6	**1.5**	2.0	4.2
Increase in provisions		**1.7**	2.3	5.0
Proceeds on disposal of service contracts in joint ventures		**-**	3.8	4.4
Operating cash inflow before movements in working capital		**36.4**	53.2	123.6
Increase in inventories		**(14.8)**	(21.4)	(3.9)
(Increase)/decrease in contract assets		**(12.8)**	(72.7)	5.2
Decrease/(increase) in receivables		**63.6**	(18.0)	(42.9)
Decrease in contract liabilities		**(5.6)**	(11.1)	(42.1)
(Decrease)/increase in payables		**(72.5)**	6.6	21.8
Movements in working capital		**(42.1)**	(116.6)	(61.9)
Cash (outflow)/inflow from operations		**(5.7)**	(63.4)	61.7
Income taxes paid		**(13.2)**	(5.4)	(12.8)
Net cash (outflow)/inflow from operating activities		**(18.9)**	(68.8)	48.9
Investing activities				
Interest received		**0.6**	0.8	1.6
Dividend from joint ventures		**-**	-	2.9
Proceeds on disposal of property, plant and equipment		**0.6**	0.4	0.3
Purchases of property, plant and equipment		**(2.6)**	(3.3)	(12.6)
Purchases of intangible fixed assets		**(0.6)**	(1.2)	(2.7)
Net (increase)/decrease in loans to joint ventures		**(11.7)**	5.5	(3.3)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**-**	-	(1.6)
Net cash (outflow)/inflow from investing activities		**(13.7)**	2.2	(15.4)
Financing activities				
Interest paid		**(1.5)**	(1.4)	(1.3)
Dividends paid	4	**-**	(15.3)	(24.8)
Repayments of lease liabilities		**(7.2)**	(7.5)	(15.1)
Proceeds from borrowings	8	**180.0**	-	-
Repayment of borrowings	8	**(120.0)**	(8.6)	(10.2)
Proceeds on issue of share capital		**3.7**	0.1	0.2
Payments by the Trust to acquire shares in the Company		**(9.4)**	(3.6)	(9.1)
Proceeds on exercise of share options		**0.4**	1.2	2.3
Net cash inflow/(outflow) from financing activities		**46.0**	(35.1)	(58.0)
Net increase/(decrease) in cash and cash equivalents		**13.4**	(101.7)	(24.5)
Cash and cash equivalents at the beginning of the period		**192.7**	217.2	217.2
Cash and cash equivalents at the end of the period	8	**206.1**	115.5	192.7

Condensed consolidated statement of changes in equity
For the six months ended 30 June 2020

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2020	2.3	38.5	(0.8)	356.8	396.8
Profit for the year	-	-	-	10.7	10.7
Other comprehensive income	-	-	0.7	-	0.7
Total comprehensive income	-	-	0.7	10.7	11.4
Share option expense	-	-	-	0.1	0.1
Issue of shares at a premium	-	3.7	-	-	3.7
Exercise of share options	-	-	-	0.4	0.4
Purchase of shares in the Company by the Trust	-	-	-	(9.4)	(9.4)
30 June 2020 (unaudited)	**2.3**	**42.2**	**(0.1)**	**358.6**	**403.0**

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2019	2.3	38.3	(0.6)	306.6	346.6
Profit for the year	-	-	-	28.3	28.3
Other comprehensive expense	-	-	(0.1)	-	(0.1)
Total comprehensive income	-	-	(0.1)	28.3	28.2
Share option expense	-	-	-	3.2	3.2
Issue of shares at a premium	-	0.1	-	-	0.1
Exercise of share options	-	-	-	1.2	1.2
Purchase of shares in the Company by the Trust	-	-	-	(3.6)	(3.6)
Dividends paid	-	-	-	(15.3)	(15.3)
30 June 2019 (unaudited)	2.3	38.4	(0.7)	320.4	360.4

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2019	2.3	38.3	(0.6)	306.6	346.6
Profit for the year	-	-	-	71.2	71.2
Other comprehensive expense	-	-	(0.2)	-	(0.2)
Total comprehensive income	-	-	(0.2)	71.2	71.0
Share option expense	-	-	-	5.9	5.9
Tax relating to share option expense	-	-	-	4.7	4.7
Issue of shares at a premium	-	0.2	-	-	0.2
Exercise of share options	-	-	-	2.3	2.3
Purchase of shares in the Company by the Trust	-	-	-	(9.1)	(9.1)
Dividends paid	-	-	-	(24.8)	(24.8)
31 December 2019 (audited)	2.3	38.5	(0.8)	356.8	396.8

Other reserves
Other reserves include:

- Capital redemption reserve of £0.6m (30 June 2019: £0.6m, 31 December 2019: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.3m) (30 June 2019: (£0.8m), 31 December 2019: (£0.8m)) arising under cash flow and net investment 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 (£0.4m) (30 June 2019: (£0.5m), 31 December 2019: (£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 2020 was 349,359 (30 June 2019: 298,932, 31 December 2019: 351,961) with a cost of £2.8m (30 June 2019: £1.5m, 31 December 2019: £2.2m).

Notes to the consolidated financial statements
For the six months ended 30 June 2020

1 Basis of preparation

General information
The financial information for the year ended 31 December 2019 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 2020 and 2019 and for the six months ended 30 June 2020 and 2019 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 2020, the Group had net cash of £146.1m and total 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 £2.9m is shown for the six month period (six months to 30 June 2019: £7.2m, year ended 31 December 2019: £17.4m). 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.

Changes in accounting policies
There have been no 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 2019.

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

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 2020 £m	Six months to 30 June 2019 £m	Year ended 31 Dec 2019 £m
Construction	**290.1**	284.2	618.9
Infrastructure and design	**499.4**	395.5	867.5
Construction and Infrastructure	**789.5**	679.7	1,486.4
Traditional fit out	**277.8**	330.5	680.7
Design and build	**38.9**	76.1	158.0
Fit Out	**316.7**	406.6	838.7
Property Services	**52.8**	54.7	115.3
Contracting	**75.8**	131.9	243.7
Mixed tenure	**89.2**	105.6	269.2
Partnership Housing	**165.0**	237.5	512.9
Urban Regeneration	**34.5**	44.2	118.8
Investments	**12.2**	2.4	8.0
Eliminations	**(7.6)**	(3.7)	(8.8)
Total revenue	**1,363.1**	1,421.4	3,071.3

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, and information technology services. The divisions are the basis on which the Group reports its segmental information as presented below:

Six months to 30 June 2020

	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	**781.9**	**316.7**	**52.8**	**165.0**	**34.5**	**12.2**	**-**	**-**	**1,363.1**
Inter-segment revenue	**7.6**	**-**	**-**	**-**	**-**	**-**	**-**	**(7.6)**	**-**
Total revenue	**789.5**	**316.7**	**52.8**	**165.0**	**34.5**	**12.2**	**-**	**(7.6)**	**1,363.1**
Operating profit/(loss) before amortisation of intangible assets	**11.5**	**10.9**	**(0.5)**	**3.0**	**2.1**	**(3.2)**	**(5.7)**	**-**	**18.1**
Amortisation of intangible assets	**-**	**-**	**(0.6)**	**-**	**-**	**(1.5)**	**-**	**-**	**(2.1)**
Operating profit/(loss)	**11.5**	**10.9**	**(1.1)**	**3.0**	**2.1**	**(4.7)**	**(5.7)**	**-**	**16.0**

Six months to 30 June 2019

	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	677.2	405.4	54.7	237.5	44.2	2.4	-	-	1,421.4
Inter-segment revenue	2.5	1.2	-	-	-	-	-	(3.7)	-
Total revenue	679.7	406.6	54.7	237.5	44.2	2.4	-	(3.7)	1,421.4
Operating profit/(loss) before amortisation of intangible assets	13.9	16.4	1.6	6.4	8.3	(0.9)	(8.2)	-	37.5
Amortisation of intangible assets	-	-	(0.8)	-	-	-	-	-	(0.8)
Operating profit/(loss)	13.9	16.4	0.8	6.4	8.3	(0.9)	(8.2)	-	36.7

Year ended 31 December 2019

	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	1,480.3	837.1	115.3	511.8	118.8	8.0	-	-	3,071.3
Inter-segment revenue	6.1	1.6	-	1.1	-	-	-	(8.8)	-
Total revenue	1,486.4	838.7	115.3	512.9	118.8	8.0	-	(8.8)	3,071.3
Operating profit/(loss) before amortisation of intangible assets	32.3	36.9	4.3	18.3	19.4	(2.4)	(15.7)	-	93.1
Amortisation of intangible assets	-	-	(1.2)	-	-	(0.6)	-	-	(1.8)
Operating profit/(loss)	32.3	36.9	3.1	18.3	19.4	(3.0)	(15.7)	-	91.3

During the period ended 30 June 2020, the period ended 30 June 2019 and the year ended 31 December 2019, inter-segment sales were charged at prevailing market prices and significantly all 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 2020 £m	Six months to 30 June 2019 £m	Year ended 31 Dec 2019 £m
Final dividend for the year ended 31 December 2018 of 34.0p per share	**-**	15.3	15.3
Interim dividend for the year ended 31 December 2019 of 21.0p per share	**-**	-	9.5
	-	15.3	24.8

Subsequent to the approval of the 2019 Annual Report, the Board determined that it was no longer prudent to propose the 2019 final dividend at the Group's AGM.

No interim dividend for 2020 is currently proposed by the Board.

5 Earnings per share

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year ended 31 Dec 2019 £m
Profit attributable to the owners of the Company	**10.7**	28.3	71.2
Adjustments:			
Amortisation of intangible assets net of tax	**1.7**	0.6	1.5
Adjusted earnings	**12.4**	28.9	72.7

Basic weighted average ordinary shares (m)	**45.2**	45.0	45.1
Dilutive effect of share options and conditional shares not vested (m)	**1.3**	1.9	1.4
Diluted weighted average ordinary shares (m)	**46.5**	46.9	46.5

Basic earnings per share	**23.7p**	62.9p	157.9p
Diluted earnings per share	**23.0p**	60.3p	153.1p
Adjusted earnings per share	**27.4p**	64.2p	161.2p
Diluted adjusted earnings per share	**26.7p**	61.6p	156.3p

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 £14.61 (30 June 2019: £12.31, 31 December 2019: £12.51).

A total of 783,723 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 2020 (30 June 2019: 3,305,885, 31 December 2019: 3,189,945).

6 Shared equity loan receivables

	30 June 2020 £m	30 June 2019 £m	31 Dec 2019 £m
1 January	**8.4**	13.0	13.0
Net change in fair value recognised in the income statement	**-**	-	(0.4)
Repayments by borrowers	**(1.5)**	(2.0)	(4.2)
End of period	**6.9**	11.0	8.4

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 2020	30 June 2019	31 Dec 2019
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%**	5.3%	5.3%
Weighted average nominal annual property price increase	**2.4%**	2.5%	2.5%
Forecast default rate	**13.0%**	11.3%	11.5%
Number of loans under the shared equity scheme outstanding at the period end	**236**	338	276

Sensitivity analysis

At 30 June 2020, 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 less than £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 30 June 2020, 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 less than £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 30 June 2020, if the forecast default rate had been 100bps higher at 14.0% and all other variables were held constant, the fair value of the shared equity loan receivables would have decrease by £0.1m 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 2020 £m	30 June 2019 £m	31 Dec 2019 £m
Trade receivables	**174.4**	220.5	244.7
Amounts owed by joint ventures	**4.2**	1.5	4.9
Prepayments	**21.4**	19.0	14.1
Other receivables	**11.8**	9.9	12.0
	211.8	250.9	275.7

8 Net cash

	30 June 2020 £m	30 June 2019 £m	31 Dec 2019 £m
Cash and cash equivalents	**206.1**	115.5	192.7
Borrowings due in less than one year	**(60.0)**	(1.6)	-
Net cash	**146.1**	113.9	192.7

Included within cash and cash equivalents is £58.2m which is the Group's share of cash held within jointly controlled operations (30 June 2019: £42.6m, 31 December 2019: £54.2m), including £4.1m held for future payment to designated suppliers (30 June 2019: £6.1m, 31 December 2019: £10.2m).

9 Trade and other payables

	30 June 2020 £m	30 June 2019 £m	31 Dec 2019 £m
Trade payables	**171.1**	210.7	184.0
Amounts owed to joint ventures	**0.2**	0.4	0.1
Other tax and social security	**42.7**	15.4	37.1
Accrued expenses	**527.5**	561.7	597.8
Deferred income	**-**	0.8	1.6
Other payables	**18.1**	15.8	11.8
	759.6	804.8	832.4

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.

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

The Group received the benefit of £9.3m under the CJRS during the period, which facilitated the safeguarding of many jobs during the period of maximum impact of COVID-19. As the Group's financial position has remained robust and resilient throughout the period, it is now intended that all payments received under the CJRS are returned during the second half and no claims will be made in future for any bonus payments eligible under the scheme.

Responsibility statement

The directors confirm that to the best of their knowledge:

(a) 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;

(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

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

5 August 2020