

2 August 2023

MORGAN SINDALL GROUP PLC
(‘Morgan Sindall’ or ‘Group’)

The Construction & Regeneration Group

RESULTS FOR THE HALF YEAR (HY) ENDED 30 JUNE 2023

Strong first half, on track for record full year performance

	HY 2023	HY 2022	Change
Revenue	£1,935m	£1,698m	+14%
Operating profit – adjusted ¹	£59.1m	£56.9m	+4%
Profit before tax – adjusted ¹	£59.8m	£54.6m	+10%
Earnings per share – adjusted ¹	98.9p	95.8p	+3%
Period end net cash	£263m	£274m	–£11m
Interim dividend per share	36.0p	33.0p	+9%
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Operating profit - reported	£57.3m	£56.0m	+2%
Profit before tax – reported	£58.0m	£53.7m	+8%
Basic earnings per share – reported	100.0p	94.3p	+6%

¹‘Adjusted’ is defined as before intangible amortisation of £2.2m and exceptional building safety credit of £0.4m (HY 2022: before intangible amortisation of £0.9m)

Strong trading performance in first half

- Revenue up 14% to £1.9bn
- Adjusted profit before tax up 10% to £59.8m

Continued balance sheet strength

- Net cash of £263m (HY 2022: £274m)
- Average daily net cash of £268m (HY 2022: £264m)

High quality and growing secured order book

- Order book of £9.1bn, up 7% on year end (FY 2022: £8.5bn)

Interim dividend up 9% to 36.0p per share (HY 2022: 33.0p)

Divisional highlights

- Excellent performance from **Fit Out**; operating profit up 43% to £30.4m (HY 2022: £21.2m). Medium-term target significantly upgraded to reflect market opportunities and high quality of business
- **Construction** delivering good revenue growth with margin in its target range; revenue up 20% to £470m (HY 2022: £392m) at an operating margin of 2.6%. Operating profit up 6% to £12.0m (HY 2022: £11.3m)

- Strong performance from **Infrastructure**; revenue up 15% to £428m (HY 2022: £372m) at an operating margin of 3.7% (HY 2022: 3.4%). Operating profit up 24% to £15.9m (HY 2022: £12.8m)
- Cost pressures and operational challenges in **Property Services** driving trading loss; operating loss¹ of £4.1m (HY 2022: operating profit £2.5m). Medium-term target downgraded to reflect current performance
- **Partnership Housing** demonstrating resilience in its business model despite challenging market conditions; revenue up 31% to £373m (HY 2022: £284m), however operating profit 27% lower at £10.1m (HY 2022: £13.9m)
- Long-term regeneration schemes progressing as planned in **Urban Regeneration**; operating profit of £6.0m (HY 2022: £7.3m)

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

“We’ve had a record first half of the year, notably from our Fit Out business which has delivered another outstanding performance in the period, demonstrating the high quality of this business.

Although the wider economic backdrop remains challenging, conditions have generally eased across many of our markets as the year has progressed. Our strong balance sheet, with a substantial net cash position, allows us to continue operating efficiently and effectively and to focus on making the right decisions to drive for long-term sustainable growth.

The positive momentum across the Group is driven by our high-quality and substantial order book across a number of sectors covering the built environment. We upgraded our expectations for the full year in June, primarily based on an anticipation of continued outperformance from Fit Out. Since then, there has been no change to our overall expectations for the Group and we remain confident of delivering another record performance.”

Enquiries

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Presentation

- There will be an analyst and investor presentation at 09.00am at Numis Securities Limited, 45 Gresham Street, London EC2V 7BF on 3 August 2023. Coffee and registration will be from 08.30am
- A copy of these results is available at: www.morgansindall.com
- The presentation will be available via live webcast from 09.00am on 3 August 2023 at www.morgansindall.com.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £3.6bn, employing around 7,600 employees and operating in the public, regulated and private sectors. It reports through six divisions of Construction, Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration.

Group Strategy

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.

Morgan Sindall's recognised expertise and market positions in affordable housing (through its Partnership Housing division) and in mixed-use regeneration development (through its Urban Regeneration division) reflect its deep understanding of the built environment developed over many years and its ability to provide solutions for complex regeneration projects. As a result, its capabilities are aligned with sectors of the UK economy which are expected to see increasing opportunities in the medium to long term and which support the UK's current and future sustainable regeneration and affordable housing needs.

Through its Construction and Infrastructure divisions, the Group is also well positioned to meet the demand for ongoing sustainable investment in the UK's social and physical infrastructure. Construction is focused on key areas of education, healthcare and commercial, while Infrastructure is focused on the highways, rail, energy, nuclear and water markets.

The Fit Out division is the market leader in its field and delivers a consistently strong operational performance. Fit Out, together with both the Construction and Infrastructure divisions, generates cashflow to support the Group's investment in affordable housing and mixed-use regeneration. The Group also has an operation in Property Services which is focused on response and planned maintenance activities provided to the social housing and the wider public sector.

Group Structure

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

Construction activities comprise the following operations:

- **Construction:** Focused on the education, healthcare, commercial, industrial, leisure and retail markets
- **Infrastructure:** Focused on the highways, rail, energy, nuclear and water markets. It also includes the BakerHicks design activities based out of the UK and Switzerland
- **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

Basis of Preparation

In addition to presenting the financial performance of the business on a statutory basis, adjusted performance measures are also disclosed. Refer to the Other Financial Information section which sets out the basis for the calculations. These measures are not an alternative or substitute to statutory UK IAS 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.

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £2.2m (HY 2022: £0.9m) and an exceptional building safety credit of £0.4m (HY 2022: £nil).

Group operating review

Headline financial results

The Group delivered a strong performance in the first half, driven mainly by the Fit Out division. Group revenue increased by 14% up to £1,935m (HY 2022: £1,698m), while adjusted operating profit increased 4% to £59.1m (HY 2022: £56.9m), held back by an operating loss of £4.1m in Property Services. Operating margin was 3.1%, 30bps lower than the prior year period (HY 2022: 3.4%).

The Group benefited from higher interest rates on its cash balances compared to the prior year period, with a net finance income of £0.7m (HY 2022: expense of £2.3m) resulting in adjusted profit before tax of £59.8m, up 10% (HY 2022: £54.6m). The statutory profit before tax was £58.0m, an increase of 8% (HY 2022: £53.7m).

The adjusted tax charge for the period was £14.0m (statutory tax charge of £11.7m), an effective rate of 23%.

The adjusted earnings per share increased 3% to 98.9p (HY 2022: 95.8p), with the statutory basic earnings per share of 100.0p, up 6% (HY 2022: 94.3p).

Market backdrop

The challenging general market conditions coming into 2023 have continued to ease throughout the period, with inflation abating and falling in certain areas; particularly in trade and labour costs and certain materials. Although still a headwind for the Group, the general trading environment has become more predictable and manageable as the year has progressed. Raw material supplies have become more consistent and any constraints in delivery are now only sporadic and localised. During the period, however, the ongoing stability of the supply chain has become more uncertain with liquidity issues increasingly common, requiring additional vigilance both pre-construction and during the delivery of projects. The risk is mitigated to some extent by the diligence taken before project commencement and the fact that no division is overly reliant on any one supplier.

Most projects in Construction and Infrastructure currently underway have appropriate inflationary protection contained within the overall contract pricing and this is not now seen as a significant risk. Where projects are being priced for future delivery, the inflationary environment continues to place some project budgets under pressure, which in turn has led to some delays in decision-making and project commencement. However, the impact of this has not been material and both still retain sizeable and high-quality secured order books. In many cases, any client budget constraints are being addressed by adjustments to project scopes, thereby allowing projects to proceed.

The market for Fit Out's services has remained very strong. There continue to be a number of positive structural changes in the market with the main drivers being lease-related events, the requirement for greater energy efficiency from offices, the move towards more flexible and collaborative

workspaces, the use of office space as a tool for enhancing staff retention and brand image, and office relocations to the regions with clients requiring increasingly complex projects.

In Property Services, local authority and housing association clients are increasingly focused on housing maintenance and on the general state of repair of their housing stocks. In the delivery of maintenance services, cost inflation and particularly labour inflation have severely impacted the profitability of contracts.

In Partnership Housing, the partnership model focusing on long-term partnerships with the public sector has provided resilience against a softer housing market and demand for contracting has remained strong throughout the period. In line with the rest of the UK housing industry, however, the division experienced a significant slowdown in its sales rates of private homes on its mixed-tenure sites, driven by the combination of economic uncertainty and the cost-of-living crisis, together with rising mortgage rates and the end of the Help to Buy scheme in England in the period. Alongside this there is the wider context of an increasingly challenging planning environment.

In Urban Regeneration, build cost inflation has continued to provide challenges to the returns on some of its active developments and on the viability of some of its schemes being evaluated prior to commencement, although not material to the overall portfolio of schemes and their future financial performance.

Divisional headlines

The Group has amended the structure of its reporting segments in the period and now reports through six divisions, with Construction and Infrastructure now being reported as separate segments (previously reported together as 'Construction & Infrastructure') to more appropriately reflect the separate management of these two businesses.

Construction and Infrastructure both delivered strong revenue growth in the period, with Construction revenue up 20% to £470m (HY 2022: £392m) and Infrastructure up 15% to £428m (HY 2022: £372m). With both divisions continuing their disciplined focus on operational delivery and contract selectivity, their respective operating margins were well within their target ranges.

Fit Out had another excellent period of trading, with profit and margin both increasing significantly. Operating profit was up 43% to £30.4m (HY 2022: £21.2m) while its operating margin increased up to 6.1% (HY 2022: 4.6%).

Property Services, however, had a difficult period with a number of operational and market challenges leading to the division making an operating loss in the period of £4.1m (HY 2022: operating profit £2.5m).

Partnership Housing performed well, bearing in mind the well-publicised challenges across the housing market. The resilience of the partnership model was reinforced by the increased revenue in the period, up 31% to £373m, driven by an increase in contracting work. This allowed the division to cushion the full extent of the market downturn, with operating profit down 27% to £10.1m (HY 2022: £13.9m).

Urban Regeneration progressed as planned with its long-term development portfolio. Although operating profit of £6.0m was slightly down compared to prior year (HY 2022: £7.3m), this was as a result of timing and phasing and scheme completions. ROCE for the last 12 months was 17%, moving towards its target level of 20%.

Secured order book

The Group has a high-quality and growing secured order book. The total secured order book for the Group at the period end was £9,068m, up 6% on the same time last year (HY 2022: £8,519m) and up 7% on the year-end position (FY 2022: £8,459m).

Maintaining contract selectivity and bidding discipline to ensure there remains the appropriate risk balance in the order book is of critical importance to the future success of the Group.

Balance sheet & cash

Operating cash for the period was an outflow of £31.2m (HY 2022: outflow of £40.4m), which in part was due to the continued investment in Partnership Housing and Urban Regeneration in line with their long-term strategies in regeneration, as well as also reflecting the usual seasonal working capital movements. Operating cash for the last twelve months was an inflow of £57.2m.

Net cash at the period end was £263m, a reduction of £11m on the prior year (HY 2022: £274m). Of this total, £41m was held in jointly controlled operations or held for future payment to designated suppliers (JVs/PBAs).

The average daily net cash for the period was £268m (including £44m in JVs/PBAs) compared to £264m in the prior year period. Looking ahead to the full year, based upon the current anticipated cash movements over the second half, there is no change to the expectation that the average daily net cash for the full year will be at or around c£250m.

During the period, the Group extended the tenor of its existing £165m revolving credit facility by a year, so that it is now committed until late 2026. Provision has also been included for two possible further one-year extensions, with the agreement of the lending banks, which would extend it out to 2028. The facility terms and pricing remain unchanged. In addition, the Group's £15m loan facility has also been renewed, with the new facility expiring in 2026.

Taken together, along with the ongoing net cash balances, this provides the Group with a significant amount of total available liquidity in line with the Group's Capital Allocation Framework.

Building Safety

The Group signed the Developer Remediation Contract in March 2023 on behalf of all of its divisions. For the year ended 31 December 2022, the Group had recognised a provision for expected costs of £48.9m in relation to its obligations thereunder.

Based on a reassessment of liabilities reflecting further information during the period, the overall movement in this building safety provision is a net gain of £0.4m and is shown separately as an exceptional profit consistent with prior treatment.

At the period end, the Group had not yet made any reimbursements to the Building Safety Fund for amounts previously granted and drawn on any of the developments for which the Group has taken responsibility for. As notified by the Department of Levelling Up, Housing and Communities (DLUHC), any repayments will only be requested upon final completion of all the relevant works. On this basis, any repayments are only likely to commence towards the end of the year at the earliest.

Dividend

The interim dividend has been increased by 9% to 36.0p per share (HY 2022: 33.0p). This reflects the increase in profit in the period, the strong balance sheet and the Board's confidence in the future prospects of the Group.

Outlook and medium-term divisional targets

The positive momentum across the Group is driven by its high-quality and substantial order book across a number of sectors covering the built environment.

Expectations for the full year were upgraded in June, primarily based on an anticipation of continued outperformance from Fit Out. Since then, there has been no change to the overall expectations for the Group and the Board remains confident of delivering another record performance.

Medium-term divisional targets

To provide a framework for future performance, each division operates to a medium-term financial target or set of targets (the 'target' or 'targets') and are referred to in the Business review.

The targets were originally set in February 2022. The medium-term target for Fit Out was subsequently upgraded in February 2023 and then upgraded again in August 2023. The medium-term target for Property Services has been downgraded in August 2023.

Division	Target
Construction	Operating margin of 2.5% - 3% pa Revenue of £1bn
Infrastructure	Operating margin of 3.5% - 4.0% pa Revenue of £1bn
Fit Out	Annual operating profit of £50m - £70m (previously average annual operating profit through the cycle of £45m-£50m)
Property Services	Annual operating profit of £7.5m (previously operating profit of £15m)
Partnership Housing	Operating margin of 8% / return on capital up towards 25%
Urban Regeneration	3-year rolling average return on capital up towards 20%

Divisional Review

The following Divisional Review is given on an adjusted basis, unless otherwise stated. Refer to Note 14 of the consolidated financial statements for appropriate reconciliations to the comparable UK IAS measures.

Headline results by business segment (vs HY 2022)

	Revenue		Operating Profit		Operating Margin	
	£m	Change	£m	Change	%	Change
Construction	470	+20%	12.0	+6%	2.6%	-30bps
Infrastructure	428	+15%	15.9	+24%	3.7%	+30bps
Fit Out	498	+9%	30.4	+43%	6.1%	+150bps
Property Services	97	+28%	(4.1)	-264%	-4.2%	-750bps
Partnership Housing	373	+31%	10.1	-27%	2.7%	-220bps
Urban Regeneration	96	-24%	6.0	-18%	n/a	n/a
Group/Eliminations	(27)		(11.2)			
Total	1,935	+14%	59.1	+4%	3.1%	-30bps

Group secured order book¹ by division

The Group's secured order book¹ at 30 June 2023 was £9,068m, up 6% compared to the prior year and 7% higher than at the year end. The divisional split is shown below.

	HY 2023	HY 2022	Change	FY 2022	Change
	£m	£m	vs HY 2022	£m	vs FY 2022
Construction	888	760	+17%	802	+11%
Infrastructure	1,628	1,775	-8%	1,799	-10%
Fit Out	1,217	869	+40%	841	+45%
Property Services	1,579	1,279	+23%	1,204	+31%
Partnership Housing	2,074	1,633	+27%	1,984	+5%
Urban Regeneration	1,699	2,235	-24%	1,847	-8%
Inter-divisional eliminations	(17)	(32)		(18)	
Group secured order book¹	9,068	8,519	+6%	8,459	+7%

¹ The 'Secured order book' is the sum of the 'committed order book', the 'framework order book' and (for Partnership Housing and Urban Regeneration) 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

	HY 2023	HY 2022	Change
	£m	£m	
Revenue	470	392	+20%
Operating profit ¹	12.0	11.3	+6%
Operating margin ¹	2.6%	2.9%	-30bps

Construction has had a strong period of revenue growth, with revenue up 20% to £470m (HY 2022: £392m). Operating profit¹ of £12.0m was up 6% on the prior year (HY 2022: £11.3m), with the operating margin¹ of 2.6% well within its strategically targeted range of 2.5%-3%.

As before, the focus for Construction has remained on improving overall quality of earnings through contract selectivity and operational delivery. The business remains broadly 85% public sector focused, with projects primarily delivered through frameworks and with education continuing to be the largest market sector served at around 50%.

The division had a strong period of winning new work, with the secured order book at the period end increasing to £888m, up 17% from the prior year (HY 2022: £760m) and up 11% on the year-end position (FY 2022: £802m).

Around 98% of the value of the order book is derived through either negotiated, framework or two-stage bidding procurement processes, in line with the preferred risk profile of work undertaken.

There continues to be a significant amount of suitable work available in the market, much of which is being generated through the existing frameworks. In addition to the secured order book, the division also had £1,018m of work at preferred bidder stage, providing confidence of a sizeable ongoing workload.

Work won in the period included: the £41m retrofit and repurposing of Pen-Y-Dre High School, a zero carbon initiative for Merthyr Tydfil Council; the £75m Clive Booth student accommodation village, a four block, new build redevelopment for Oxford Brookes University; the £79m redevelopment of Woolwich Leisure Centre to create a community arts, fitness and leisure hub for the Royal Borough of Greenwich; and the £52m MIM Schools contract consisting of three new build, zero carbon, primary schools for the Welsh Government. In addition, Construction resecured its positions on both the Pagabo National and SCF Regional frameworks, as well as securing places on both the Ministry of Justice framework and the Ministry of Defence's Defence Estate Optimisation Project (DEOP), all of which provide the Construction business with further growth opportunities.

Divisional outlook for Construction

The medium-term target for Construction is an operating margin of between 2.5% and 3% per annum and revenue of £1bn. For the full year, it is expected that the margin will be around the middle of this range, with good progress made towards its revenue target, while at the same time also maintaining its normal risk profile in its workload and bidding discipline.

¹ Before exceptional Building Safety charge of £8.6m. See Note 2 of the consolidated financial statements

Infrastructure¹

	HY 2023	HY 2022	Change
	£m	£m	
Revenue	428	372	+15%
Operating profit	15.9	12.8	+24%
Operating margin	3.7%	3.4%	+30bps

Infrastructure delivered a strong performance in the period. With revenue increasing 15% to £428m (HY 2022: £372m), operating profit increased 24% to £15.9m (HY 2022: £12.8m) with the operating margin of 3.7% in the middle of its targeted range of 3.5%-4%.

Infrastructure's order book of £1,628m was down 8% compared to the prior year (HY 2022: £1,775m) and down 10% from the year end position (FY 2022: £1,799m). The order book remains long term in nature, with 74% for 2024 and beyond and around 95% derived through existing frameworks. Procurement activity for the next regulatory cycles has commenced, however due to the size and nature of infrastructure frameworks and projects, bidding and procurement processes are ordinarily lengthy, with the overall time to award contracts increasing.

As before, the division remains focused on the key sectors of highways, nuclear, energy, water, and rail. Within the period, the increased activity was driven by good growth in rail and nuclear, however highways was lower, impacted by budgetary pressures.

In highways, the division started work on the £66m A12 project in Essex and continued to work on the A11 scheme in Norwich. These schemes form part of National Highway's Concrete Roads Programme - Reconstruction Works Framework, a four-year programme worth c£130m to repair or replace the concrete surface of motorways or major A roads in England. The announcement by the UK Government during the period to remove new smart motorways from its road investment strategy has not impacted the division's future order book and work continues on safety-critical works under the Smart Motorways Alliance.

In nuclear, decommissioning works continued for Sellafield Ltd on the Infrastructure Strategic Alliance and on the £1.6bn Programme and Project Partners contract. In addition, work continued on the 10-year Clyde Commercial Framework for the Defence Infrastructure Organisation and on the D58 facility for BAE Systems.

In energy, work continued on the Dinorwig and ZZA route projects as part of the RIIO-2 electricity construction EPC (Engineer, Procure and Construct) framework for National Grid. In addition, delivery continued on several schemes as part of Scottish & Southern Electricity Network's (SSEN) RIIO-2 framework involving the construction, refurbishment and decommissioning of overhead lines, underground cable systems and substations operating between 33kV to 400kV across SSEN's transmission network. In water, work continued on various environmental improvement projects and wastewater treatment upgrades as part of the long-term AMP7 framework with Welsh Water.

In rail, the division was awarded the £88m Beckton Depot improvements project as part of the London Rail Infrastructure Improvement Framework for Transport for London. In addition, work continued on several schemes for Network Rail, including the Parson's Tunnel rockfall shelter extension under the South West Rail Resilience Programme and Bangor to Colwyn Bay, as part of the CP6 Wales and Western framework.

In the BakerHicks design business¹, design work completed on the Biological Development Centre, a facility for Boehringer Ingelheim in Biberach, Germany, which combined biological analytics, process development and drug production for clinical trials, and the new £42.5m Allander Leisure Centre for East Dunbartonshire Council in Bearsden, East Dunbartonshire completed and was opened to the

public. In addition, the Ulster Hospital Acute Services Block in Belfast on which design services were provided, was presented with the RIBA Regional Award, the RSUA Design Award and the RSUA Sustainability Award, whilst other projects underway included work on an innovative feed additive facility for East Dunbartonshire Council in Dalry, North Ayrshire to reduce methane emissions from cattle.

Divisional outlook for Infrastructure

The medium-term target for Infrastructure is an operating margin of between 3.5% and 4% per annum and revenue of £1bn. For the full year, based upon the type of work and projects ending in the second half, it is expected that the margin will be slightly above the top end of this range, with good progress also made towards its revenue target.

¹ Design results are reported within Infrastructure

Fit Out

	HY 2023	HY 2022	Change
	£m	£m	
Revenue	498	457	+9%
Operating profit	30.4	21.2	+43%
Operating margin	6.1%	4.6%	+150bps

Fit Out delivered an excellent result in the period, with significant growth in operating profit and margin. With revenue increasing by 9% to £498m (HY 2022: £457m), operating profit was up 43% to £30.4m (HY 2022: £21.2m) with the operating margin at a very strong 6.1%, up from 4.6% last year, driven by contract mix and type of work.

The overall balance of the business between market sectors, geography and type of work has remained broadly similar over a number of years, reinforcing Fit Out's focused approach to its markets and understanding of its own capabilities and skills. This is complemented by its consistent operational delivery and overall enhanced customer experience, which in turn supports the division's strong brand reputation and market position.

The commercial office market remained the largest sector, contributing 79% of revenue (HY 2022: 78%), with government/local authority, higher education and retail banking accounting for the majority of the remainder.

Geographically, the London region remained the division's largest market, accounting for 59% of revenue (HY 2022: 62%). Other regions accounted for 41% of revenue (HY 2022: 38%).

In terms of type of work delivered in the year, 84% related to traditional fit out work (HY 2022: 86%), while 16% related to 'design and build' (HY 2022: 14%). The proportion of revenue generated from the fit out of existing office space remained at 78% (HY 2022: 78%), with the fit out of new office space at 22% (HY 2022: 22%). Of the fit out of existing office space, 82% related to refurbishment 'in occupation' (HY 2022: 46%)

Underpinning the current and future performance is a high-quality workload. At the period end, the secured order book stood at £1,217m, an increase of 40% from the prior year position (HY 2022: £869m) and 45% up on the year end position (FY 2022: £841m). Of the increase in the order book since the year end, the largest proportion was derived from the growth in value of an existing project which is in its early stage of commencement.

Of the secured order book, £521m (43%) relates to the second half of the year, which is 32% higher than the equivalent amount as at 30 June 2022 of £394m. The remaining £696m of the current order book (57%) is for 2024 and beyond, driven by a number of larger (>£20m) contracts and this provides

an increasing level of long-term visibility of workload compared to previous periods. The comparable number at the same time last year was £475m, 32% lower.

In addition, there remains a significant pipeline of opportunities being pursued. The division also had over £50m of work in the pre-contract 'preferred bidder' stage at the period end, as well as £553m of work currently being tendered or pending a decision and £336m due to be tendered in the next 3 months.

Projects completed or continuing onsite during the period include 360,000 sq ft for Marsh McLennan in London; 250,000 sq ft for the relocation of a global financial organization to Paddington; 150,000 sq ft HQ for GSK in London's Life Sciences hub, known as the Knowledge Quarter; 110,000 sq ft for a professional services firm in London; and 81,000 sq ft for ROKU Europe in Manchester.

Projects won in the period include the 750,000 sq ft fit out for a global financial services firm; 225,000 sq ft fit out for LandSec at New Street Square in London; a 109,000 sq ft fit out for Aviva at 80 Fenchurch Street; 82,000 sq ft fit out for a technology company in London; a 41,000 sq ft fit out for a law firm on Bishopsgate in London; 12,500 sq ft for a specialist insurer and re-insurer on Bishopsgate in London; 16,000 sq ft fit out for Swiss Life Asset Managers UK in Birmingham; a 10,000 sq ft fit out for Rolls-Royce at Kings Place in London; and 10,750 sq ft for telecommunications company CIENA in Shoreditch.

In higher education and the life science sector, projects won during the period include four projects for Anglia Ruskin University; 54,000 sq ft for London School of Economics and Political Science, 16,000 sq ft for Loughborough University; two projects for the University of Portsmouth to refurbish 14,000 sq ft within the Medical Education Centre and Photography Suite. Completed projects during the year include the 25,000 sq ft for Coventry University that included a laboratory refurbishment; a 20,000 sq ft laboratory fit out of the Anatomy and Clinical Skills department at the University of Warwick; and 19,000 sq ft fit out of a laboratory and workspace at Queen Mary University's Francis Bancroft building. Work continued on three projects for University College London totalling £40m.

In commercial design and build, significant wins include 90,000 sq ft for BAE Systems at Victory Point in Camberley; 21,000 sq ft for C&C Group at The Pavilions in Bristol; a 15,000 sq ft fit out for TT Group in London; 11,000 sq ft for Butlins in Hemel Hempstead; 10,000 sq ft for Kobalt Music Group in London; 9,000 sq ft for Reflex Bracknell Limited (a subsidiary of CLS Holdings plc) at the Reflex Building in Bracknell; and 9,000 sq ft for Chubb Fire and Security in Staines.

Projects won under frameworks and corporate partnerships include £10m of works for the Mayor's Office for Policing and Crime (MOPAC); two projects through the Procure Partnerships Framework, most significantly the relocation of the General Pharmaceutical Council in London; five SCAPE procured projects totalling 91,000 sq ft.; 19 projects won through Fit Out's partnership with NatWest Group; and eleven projects totalling 64,000 sq ft for landlord Great Portland Estates.

Divisional outlook for Fit Out

In order to more appropriately reflect the division's current performance, its market position and its future prospects, Fit Out's medium-term target has again been significantly upgraded as of August 2023. The revised expectation is that over the medium term, Fit Out will deliver annual operating profit within the range of £50m - £70m (previously average annual operating profit through the cycle of £45m - £50m).

For 2023, current trading patterns are anticipated to continue through the second half and the division is expected to deliver a result for the full year which is around the top end of the upgraded medium-term target profit range.

Property Services

	HY 2023	HY 2022	Change
	£m	£m	
Revenue	97	76	+28%
Operating (loss)/profit ¹	(4.1)	2.5	-264%
Operating margin ¹	-4.2%	3.3%	-750bps

Property Services has had a difficult first half, with the division reporting an operating loss¹ in the period of £4.1m (HY 2022: profit of £2.5m).

Revenue increased by 28%, up to £97m (HY 2022: £76m), with the growth driven by new contracts mobilised during last year becoming fully operational and by some more established client contracts increasing their volumes to clear backlogs in repairs arising from previous years and to improve the overall quality of their estates.

However, the rapid increase in activity led to a number of operational delivery issues and inefficiencies, with significant additional costs also being required to support the start-up phases of more recently mobilised contracts. Together with ongoing inflationary pressures and contract pricing mechanisms, this resulted in the division making an operating loss¹ in the period of £4.1m (HY 2022: profit of £2.5m).

In addressing the current challenges, a number of key roles in the senior management team have been changed and a remediation programme is being implemented, focusing the division on improving client service and operational delivery.

At the period end, the secured order book was £1,579m, up 23% from the prior year (HY 2022: £1,279m) and up 31% from the full year position (FY 2022: £1,204m). Of this total, over 80% is for 2025 and beyond. The order book growth was driven by the signing of a 15-year contract with L&Q, the housing association, estimated to be worth c£30m per year, to deliver a range of services including estate and environmental improvements, planned mechanical and engineering works and internal works for its residents.

Future growth in the order book during the second half and into 2024 is expected to mainly come through existing client contracts. The timescales involved in bidding will mean that no material new contracts will be progressed until the remediation programme has been successfully implemented and the operational delivery capability stabilised.

Divisional outlook for Property Services

In order to reflect the current trading performance and short-term operational issues, the medium-term target for Property Services has been reduced, with the revised target being to achieve annual operating profit of £7.5m (previously annual operating profit of £15m).

The remediation programme will continue to be implemented across the second half of the year and will carry an associated cost with it which will be charged through the normal trading results. When taken together with the current trading patterns and operational performance, a further loss is expected in the second half which is slightly higher than that reported in the first half.

¹ before intangible amortisation of £2.2m (HY 2022: £0.9m)

Partnership Housing

	HY 2023 £m	HY 2022 £m	Change
Revenue	373	284	+31%
Operating profit	10.1	13.9	-27%
Operating margin	2.7%	4.9%	-220bps
Average capital employed ¹ (last 12 months)	221.9	179.0	+£42.9m
Capital employed ¹ - at period end	243.1	190.9	+£52.2m
ROCE ² (last 12 months)	15%	20%	

In Partnership Housing, the partnership model focusing on long-term partnerships with the public sector provided resilience against a softer housing market and demand for contracting remained strong throughout the period.

Revenue was up 31% to £373m (HY 2022: £284m), driven by **Contracting** (including planned maintenance and refurbishment) which was up 49% to £214m (57% of divisional total) compared to the prior year. **Mixed-tenure** revenue was 14% higher at £159m (43% of divisional total).

In mixed-tenure, 805 units were completed across open market sales and social housing (including through its joint ventures) compared to 755 in the prior year period, however, the number of open market sales within this dropped 20% to 340. The average sales price was £241k compared to the prior year average of £261k, a reduction of 8%.

Together, this resulted in operating profit of £10.1m, down 27% on the prior year (HY 2022: £13.9m) with the operating margin reducing to 2.7% (HY 2022: 4.9%).

Despite the challenging short-term market conditions, the longer-term development of the business and its partnerships with local authorities and housing associations has continued as planned. At the period end, the division had 69 active mixed-tenure sites at various stages of construction and sales, up from 58 at the year end and up from 49 at the prior year. There was an average of 154 open market units per site at the period end.

Reflective of this significant amount of ongoing activity and investment in future growth, the capital employed¹ at the period end was £243.1m, an increase of £52.2m on the prior year (HY 2022: £190.9m) and £53.8m higher than at the year end (FY 2022: £189.3m). With higher average capital employed¹ for the last 12-month period of £221.9m (HY 2022: £179.0m) and lower profit in the period, the overall ROCE² for the last 12-month period reduced to 15%. Average capital employed¹ for the full year is expected to be c£240m.

The division had a positive period of winning work, with clients increasingly looking to Partnership Housing to award work either through frameworks or through direct negotiation. This was reflected in the secured order book at the period end which was up 27% on the prior year at £2,074m (HY 2022: £1,633m) and up 5% on the year-end position (FY 2022: £1,984m). Of this total, the order book relating to mixed-tenure activities was up 30% on the prior year position and broadly level with the year-end position at £1,273m (HY 2022: £980m, FY 2022: £1,279m), while the contracting secured order book increased to £801m, up 23% on the prior year (HY 2022: £653m) and up 14% on the year end (FY 2022: £705m).

In mixed-tenure, work secured included; a c£90m, 400 unit development in partnership with Saffron Housing Trust at Harleston, Norfolk; a 46 unit scheme in Skelemthorpe, Huddersfield; and 70 units at Gaultney Farm, Desborough.

Key contracting schemes awarded in the period included; a c£38m, 143 apartment scheme in Stevenage for the Guinness Partnership, a £50m, 159 unit scheme at Loxford Lane, Redbridge for the London Borough of Redbridge; a £40m, 110 unit scheme for the City of London Corporation in Sydenham Hill; and a £24m, 150 unit scheme in Coalville, Leicestershire for the EMH Group.

Divisional outlook for Partnership Housing

Partnership Housing's medium-term targets are to generate a return on average capital employed up towards 25% and to deliver an operating margin of 8%.

Looking ahead to the second half, an improved performance is expected based on the secured contracting work in the order book and the anticipated level of open market sales on the mixed-tenure sites. However, both margin and return on average capital for the full year are still expected to be significantly lower than last year.

¹ Capital Employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding exceptional Building Safety provisions, corporation tax, deferred tax, inter-company financing and overdrafts)

² Return On Average Capital Employed = (Adjusted operating profit plus interest from JVs) divided by average capital employed

Urban Regeneration

	HY 2023	HY 2022	Change
	£m	£m	
Revenue	96	126	-24%
Operating profit ¹	6.0	7.3	-18%
Average capital employed ² (last 12 months)	104.0	91.9	+£12.1m
Capital employed ² at period end	120.5	99.4	+£21.1m
ROCE ³ (last 12 months)	17%	12%	
ROCE ³ (average last 3 years)	14%	12%	

Urban Regeneration's long-term regeneration schemes progressed to plan during the period, with the various phasing of schemes resulting in an operating profit¹ of £6.0m (HY 2022: £7.3m). The ROCE³ for the last 12 months was 17%, up significantly on the prior year, based on average capital employed² of £104.0m.

During the period good progress was made on Lewisham Gateway, London, and New Victoria, Manchester, both developments subject to forward funding deals signed in 2020 and due to reach practical completion in the second half of the year. 58 homes were sold in the period, including 31 sales at Novella, Salford, delivered by The English Cities Fund (a joint venture with Legal & General and Homes England) and 27 sales at Brixton Centric, a 75-home development in partnership with Lambeth Council and Notting Hill Genesis. Development continued at One City Park, a 56,000 sq ft office building in Bradford; the final phase at Hale Wharf, Tottenham, delivering a further 256 new homes, including 191 affordable homes for the London Borough of Haringey; and, Forge Island, Rotherham, delivering a new town centre that will provide a boutique cinema, Travelodge hotel and six independent restaurants.

In The English Cities Fund, strong progress was made on a number of developments, including the Eden building, a 115,000 sq ft office building featuring Europe's largest living green wall due for completion in the second half of the year; Four New Bailey, Salford, where a 20-year pre-let is in place for 175,000 sq ft of grade A office space; and, Manor Road, Canning Town, a 355 home scheme in partnership with the London Borough of Newham and Metropolitan Thames Valley Housing Association. In addition, the fund was selected as preferred developer by Stockport Council for its

Stockport 8 scheme, a residential-led scheme located near to Stockport railway station, with the development agreement to be signed in the second half of the year.

At the period end, the division's regeneration order book amounted to £1,699m, a reduction of 24% on the prior year period (HY 2022: £2,235m) and 8% lower than the year end (FY 2022: £1,847m). Activity levels remain good and there are a number of sizeable schemes currently in the pipeline at preferred bidder stage which are expected to be converted into contract in due course.

Capital employed² at the period end was £120.5m, £21.1m higher than the prior year (HY 2022: £99.4m), and £20.1m higher than the year end (FY 2022: £100.4m). Based upon the projected profile of scheme movements and completions due in the second half, capital employed is expected to reduce over the rest of the year and the average capital employed² for the full year is expected to be c£95m.

Divisional outlook for Urban Regeneration

The medium-term target for Urban Regeneration is to increase its rolling three-year average ROCE³ up towards 20%. Based on the expected scheme progress throughout the rest of the year, a higher profit is expected in the second half, which will help drive further improvement in the three-year average ROCE³ towards its target level.

¹ Before exceptional Building Safety credit of £9.0m. See Note 2 of the consolidated financial statements

² Capital Employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding exceptional Building Safety provisions, corporation tax, deferred tax, inter-company financing and overdrafts)

³ Return On Average Capital Employed = (Adjusted operating profit plus interest from JVs) divided by average capital employed

Group Capital Allocation Framework

The Board's single, overarching principle governing capital allocation is a commitment to maintain a strong balance sheet and to hold significant net cash balances at all times.

In support of this principle, the Group's capital allocation framework comprises:

- ***Maintaining balance sheet strength to enhance our competitive advantage and win future work***

Fundamental to the Group's organic growth strategy is engaging in long term partnerships with its public and private sector clients, whether it be through joint ventures or other arrangements in its Regeneration activities, or through frameworks in its Construction activities.

When assessing the suitability of long-term partners, potential clients are increasingly looking for security and assurance of long-term solvency and the availability of cash resources to ensure their partners can fulfil their long-term contractual obligations. A strong balance sheet and significant levels of net cash are considered by the Group as a market differentiator and a competitive advantage when bidding and winning future work to support the future growth of the business.

- ***Ensuring downside protection - maintaining a 'buffer' in the event of a macro downturn***

Maintaining significant levels of net cash is considered as key to offsetting any potential consequence of a future downturn in the economy and reduction in revenue in the Construction activities of Construction, Infrastructure and Fit Out.

These activities operate with a negative working capital model, which in turn can lead to cash outflows in the event of declines in revenue. Maintaining a net cash 'buffer' therefore allows the Group to

continue with its strategy of disciplined contract selectivity and prudent approach to risk management throughout the whole economic cycle.

- ***Maximising investment in the current business to drive growth***

As detailed in the Group Strategy section above, the Group's capabilities are aligned with sectors of the UK economy which are expected to see increasing opportunities in the medium to long term and which support the UK's current and future regeneration and affordable housing needs, as well as being well positioned to meet the demand for ongoing investment in the UK's physical and social infrastructure. Consequently, significant opportunities are expected to arise through the medium and long-term to invest in the business to support and accelerate the organic growth of these activities.

Specifically, investment in the regeneration activities is a strategic priority:

- For *Partnership Housing*, the growth potential remains substantial. The medium-term target is for an operating margin of 8% and for return on capital to be up towards 25% on an annual basis. These investment returns are targeted for its next phase of growth and the scalability of the partnership housing model provides the potential to significantly increase the capital employed above current levels over the medium to long term.
- Within *Urban Regeneration*, its development activities across multi-phase sites and mixed-use regeneration are targeted to generate an average return on capital of up to 20% on a three-year basis over the medium term. Based on the identified pipeline of future opportunities as well as the investment profile of schemes already secured, the capital employed in the division is expected to increase over the medium term.

Within the overall investment programme for the Regeneration activities, the Group may occasionally identify opportunities to complement the existing growth strategy by acquiring pre-existing development schemes or positions in existing schemes from third parties. Any such acquisition opportunities would only be considered where they would accelerate the strategic growth through the Group's existing divisional structure and capabilities.

- ***Maintaining an attractive dividend policy***

Dividends are considered by the Board to be an important component of shareholder returns. The Board has formally adopted a dividend policy such that dividend cover is expected to be in the range of 2.0x-2.5x on an annual basis.

This capital allocation framework is designed to balance the needs of all stakeholders whilst enhancing the Group's market competitiveness and capabilities and maintaining its financial strength. The Board will prioritise attractive investment opportunities in the business to support and accelerate growth, generate the best returns for shareholders and ensure the continued support of the ordinary dividend. The Board will continue to assess the needs of the business and the optimum balance sheet structure within the context of the principle and framework described above, and any capital then deemed surplus above these requirements may be returned to shareholders.

Other Financial Information

1. Net finance expense. Net finance income was £0.7m, an increase of £3.0m compared to HY 2022.

	HY 2023 £m	HY 2022 £m	Change £m
Interest income on bank deposits	4.3	-	4.3
Amortisation of bank fees & non-utilisation fees	(1.0)	(1.1)	0.1
Interest expense on lease liabilities	(1.1)	(1.0)	(0.1)
Other	(1.5)	(0.2)	(1.3)
Total net finance expense	0.7	(2.3)	3.0

2. Tax. A tax charge of £11.7m is shown for the period (HY 2022: £10.7m). This equates to an effective tax rate of 20.2% on profit before tax. The adjusted tax charge is £14.0m (HY 2022: £10.9m).

	HY 2023 £m	HY 2022 £m
Profit before tax	58.0	53.7
Less: share of underlying ¹ net profit in joint ventures	(3.8)	(3.1)
Profit before tax excluding joint ventures	54.2	50.6
Statutory tax rate	23.5%	19.0%
Current tax charge at statutory rate	(12.7)	(9.6)
Tax on underlying ¹ joint venture profits ²	(0.9)	(0.6)
Tax on exceptional items	1.8	-
Residential Property Developer Tax	(0.3)	(0.4)
Other adjustments	0.4	(0.1)
Tax charge as reported	(11.7)	(10.7)
Tax on amortisation	(0.5)	(0.2)
Tax on exceptional items	(1.8)	-
Adjusted tax charge	(14.0)	(10.9)

¹ Underlying net profit of joint ventures excludes the exceptional Building Safety credit (£4.5m) related to joint ventures

² Most 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 (including Contract Assets), less Trade & Other Payables (including Contract Liabilities)’ adjusted as below.

	HY 2023	HY 2022	Change
	£m	£m	£m
Inventories	397.4	333.9	+63.5
Trade & Other Receivables ¹	666.7	574.4	+92.3
Trade & Other Payables ²	(1,063.8)	(977.7)	-86.1
Net working capital	0.3	(69.4)	+69.7

¹ Adjusted to exclude capitalised arrangement fees and accrued interest receivable of £1.7m (HY 2022: £0.6m)

² Adjusted to exclude accrued interest payable of £0.6m (HY 2022: £0.5m)

4. Cash flow. Operating cash flow was an outflow of £31.2m (HY 2022: outflow of £40.4m). Free cash flow was an outflow of £37.3m (HY 2022: outflow of £55.7m).

	HY 2023	HY 2022	Last 12 months
	£m	£m	
Operating profit - adjusted	59.1	56.9	141.4
Depreciation	12.4	10.8	24.5
Share option expense	4.3	4.2	9.8
Movement in fair value of shared equity loans	-	-	(0.4)
Share of underlying net profit of joint ventures ¹	(3.8)	(3.1)	(15.0)
Other operating items ²	4.0	(12.3)	(1.3)
Change in working capital ³	(91.7)	(84.7)	(71.5)
Net capital expenditure (including repayment of finance leases)	(18.0)	(12.2)	(34.2)
Dividends and interest received from joint ventures	2.5	-	3.9
Operating cash flow	(31.2)	(40.4)	57.2
Income taxes paid	(9.0)	(14.9)	(14.4)
Net interest received/(paid) - (non-joint venture)	2.9	(0.4)	3.3
Free cash flow	(37.3)	(55.7)	46.1

¹ Underlying net profit of joint ventures excludes the exceptional Building Safety credit (£4.5m) related to joint ventures

² Other operating items includes shared equity redemptions (£0.1m) and provision movements (£5.4m) less a gain on disposal of joint ventures (£1.5m)

³ The cash flow due to change in working capital excludes non-cash movements relating to the unwinding of discounting on land creditors (£1.5m) less other non-cash creditor movements (£4.4m)

5. Net cash. Net cash at 30 June 2023 was £263.1m, with movements summarised as:

	£m
Net cash as at 1 January 2023	354.6
Free cash flow (as above)	(37.3)
Dividends	(31.5)
Other ¹	(22.7)
Net cash as at 30 June 2023	263.1

¹ 'Other' includes the purchase of shares in the Company by the employee benefit trust (£2.2m) and net increase in loans to JVs (£22.6m) less proceeds from the disposal of investments (£1.5m) and proceeds from the exercise of share options (£0.6m)

6. Capital employed by strategic activity. An analysis of the capital employed in the **Construction** activities shows an increase of £24.5m since the prior period, split as follows:

Capital employed^{1,2} in Construction	HY 2023 £m	HY 2022 £m	Change £m
Construction	(200.8)	(177.8)	-23.0
Infrastructure	(72.2)	(66.9)	-5.3
Fit Out	(54.3)	(80.0)	+25.7
Property Services	75.0	47.9	+27.1
	(252.3)	(276.8)	+24.5

An analysis of capital employed in the **Regeneration** activities shows an increase of £73.3m since the prior period, split as follows:

Capital employed^{1,2} in Regeneration	HY 2023 £m	HY 2022 £m	Change £m
Partnership Housing	243.1	190.9	+52.2
Urban Regeneration	120.5	99.4	+21.1
	363.6	290.3	+73.3

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 Adjusted to exclude Building Safety provisions

7. Dividends. The Board of Directors has proposed an interim dividend of 36.0p per share, an increase of 9% on the prior year interim dividend (HY 2022: 33.0p). This will be paid on 26 October 2023 to shareholders on the register on 6 October 2022. The ex-dividend date will be 5 October 2023.

8. Principal risks and uncertainties. The Board continues to take a proactive approach to recognising and mitigating risk with the aim of protecting and safeguarding the interests of the Group and its shareholders in the changing environment in which it operates.

Details of the principal risks facing the Group and mitigating actions are included within the 2022 Annual Report. These are still considered to be relevant risks and uncertainties for the Group at this time and are summarised below (in no order of magnitude).

Summary of principal risks as per 2022 Annual Report:

Economic change and uncertainty - There could be fewer or less profitable opportunities in the Group's chosen markets including a decline in construction and residential activity caused by macroeconomic weakness. Allocating resources and capital to declining markets or less attractive opportunities would reduce its profitability and cash generation.

Exposure to UK housing market - The UK housing sector is strongly influenced by government stimulus and consumer confidence. Inflationary pressures and resulting interest rate direction could challenge scheme viability, slowing down secured order book conversion. If mortgage availability, affordability or consumer confidence is reduced, this could impact on demand, make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.

Health and safety - If the Group fails to protect the health, safety and wellbeing of its key stakeholders, individuals could be hurt which could damage the Group's reputation as a responsible employer and affect its ability to secure future work.

Climate change - Failure to protect the environment in which the Group works by reducing carbon emissions and waste and to fully consider potential environmental risks on projects could cause delays to projects and damage the Group's reputation.

Failure to attract and retain talented people - Talented people are needed to provide excellence in project delivery and customer service. Skills shortages in the construction industry remain an issue for the foreseeable future.

Insolvency of key client, subcontractor, joint venture partner or supplier - An insolvency could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid. In isolated circumstances supply chain failures have caused disruption and cost at individual project level, but not material. Where this has occurred, we have been able to step in, take on existing commitments and/or alternative suppliers and mitigate any impacts. Our supply chain is widely dispersed across both the SME market, our geographies, businesses and regions and provides resilience by limiting partner concentration which coupled with our close relationships allows a degree of early warning and intervention when required.

Inadequate funding - A lack of liquidity could impact the Group's ability to continue to trade or restrict its ability to achieve market growth or invest in regeneration schemes.

Mismanagement of working capital and investments - Poor management of working capital and investments leads to insufficient liquidity and funding problems.

Poor contract selection and/or bidding - Failure to fully understand the risks on projects may lead the Group to accepting work outside its core competencies or for which the Group has insufficient resources, leading to poor delivery, a reduction in gross margin and ultimately result in reputational damage and loss of opportunities. In terms of inflation the Group's predominantly public sector and largely negotiated orderbook continues to provide resilience by allowing us to pass on costs or recover increases via project terms.

Poor project delivery (including changes to contracts and contract disputes) - Failure to meet client expectations could lead to disputes and incur costs that erode profit margins, lead to the withholding of cash payments and impact working capital. It may also result in reduction of repeat business and client referrals. To comply with the Building Safety Act the Group needs to ensure that its future buildings comply with the regulations and that related issues in completed projects are identified, appropriate provisions made, rectification and recovery strategies implemented.

UK cyber activity and failure to invest in information technology - Investment in IT is necessary to meet the future needs of the business in terms of expected growth, security, and innovation, and enables

its long-term success. It is also essential in order to avoid reputational and operational impacts and loss of data that could result in significant fines and/or prosecution.

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 2023

		Six months to 30 June 2023 (unaudited) £m	Six months to 30 June 2022 (unaudited) £m	Year ended 31 Dec 2022 (audited) £m
	Notes			
Revenue		1,935.2	1,697.5	3,612.2
Cost of sales		(1,723.8)	(1,504.7)	(3,241.3)
Gross profit		211.4	192.8	370.9
Analysed as:				
Adjusted Gross Profit		215.5	192.8	410.0
Exceptional building safety charge	3	(4.1)	-	(39.1)
Administrative expenses		(163.9)	(140.5)	(287.6)
Share of net profit of joint ventures	7	8.3	3.1	4.5
Other operating income		1.5	0.6	0.5
Operating profit		57.3	56.0	88.3
Analysed as:				
Adjusted Operating profit		59.1	56.9	139.2
Exceptional building safety credit/(charge)	3	0.4	-	(48.9)
Amortisation of intangible assets		(2.2)	(0.9)	(2.0)
Finance income		4.3	0.4	2.3
Finance costs		(3.6)	(2.7)	(5.3)
Profit before tax		58.0	53.7	85.3
Analysed as:				
Adjusted profit before tax		59.8	54.6	136.2
Exceptional building safety credit/(charge)	3	0.4	-	(48.9)
Amortisation of intangible assets		(2.2)	(0.9)	(2.0)
Tax	4	(11.7)	(10.7)	(24.4)
Profit for the period		46.3	43.0	60.9
Attributable to:				
Owners of the Company		46.3	43.0	60.9
Earnings per share				
Basic	6	100.0p	94.3p	132.7p
Diluted	6	98.5p	91.9p	130.4p

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 2023

	Six months to 30 June 2023 (unaudited) £m	Six months to 30 June 2022 (unaudited) £m	Year ended 31 Dec 2022 (audited) £m
Profit for the period	46.3	43.0	60.9
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange (loss)/gain on translation of overseas operation	(0.1)	0.8	2.1
Fair value loss arising on hedging instruments	(0.1)	-	-
Other comprehensive (expense)/income	(0.2)	0.8	2.1
Total comprehensive income	46.1	43.8	63.0
Attributable to:			
Owners of the Company	46.1	43.8	63.0

Condensed consolidated statement of financial position
At 30 June 2023

		30 June 2023 (unaudited)	30 June 2022 (unaudited)	31 Dec 2022 (audited)
	Notes	£m	£m	£m
Assets				
Goodwill and other intangible assets		219.3	221.5	221.2
Property, plant and equipment		75.7	66.9	74.8
Investment property		0.8	0.8	0.8
Investments in joint ventures	7	108.4	91.8	84.0
Non-current assets		404.2	381.0	380.8
Inventories		397.4	333.9	333.9
Contract assets		295.6	281.5	294.6
Trade and other receivables	8	372.8	293.6	353.0
Current tax assets		-	8.9	-
Shared equity loan receivables		0.3	0.5	0.4
Cash and cash equivalents	11	326.9	352.3	431.7
Current assets		1,393.0	1,270.7	1,413.6
Total assets		1,797.2	1,651.7	1,794.4
Liabilities				
Contract liabilities		(78.5)	(70.3)	(74.2)
Trade and other payables	9	(949.4)	(878.2)	(963.2)
Current tax liabilities		(8.4)	-	(5.6)
Lease liabilities		(16.2)	(14.2)	(16.0)
Borrowings	11	(63.8)	(78.4)	(77.1)
Provisions	10	(62.9)	(18.2)	(55.1)
Current liabilities		(1,179.2)	(1,059.3)	(1,191.2)
Net current assets		213.8	211.4	222.4
Trade and other payables	9	(36.5)	(29.7)	(37.3)
Lease liabilities		(37.6)	(38.3)	(40.9)
Borrowings	11	-	(0.4)	-
Retirement benefit obligation		(0.2)	(0.2)	(0.2)
Deferred tax liabilities		(6.7)	(10.0)	(6.8)
Provisions	10	(23.5)	(26.4)	(21.8)
Non-current liabilities		(104.5)	(105.0)	(107.0)
Total liabilities		(1,283.7)	(1,164.3)	(1,298.2)
Net assets		513.5	487.4	496.2
Equity				
Share capital		2.4	2.4	2.4
Share premium account		55.9	53.4	55.9
Other reserves		0.9	(0.2)	1.1
Retained earnings		454.3	431.8	436.8
Equity attributable to owners of the Company		513.5	487.4	496.2
Total equity		513.5	487.4	496.2

Condensed consolidated cash flow statement

For the six months ended 30 June 2023

	Notes	Six months to 30 June 2023 (unaudited) £m	Six months to 30 June 2022 (unaudited) £m	Year ended 31 Dec 2022 (audited) £m
Operating activities				
Operating profit		57.3	56.0	88.3
Adjusted for:				
Exceptional building safety (credit)/charge	3	(0.4)	-	48.9
Amortisation of intangible assets		2.2	0.9	2.0
Underlying share of net profit of equity accounted joint ventures	7	(3.8)	(3.1)	(14.3)
Depreciation		12.4	10.8	22.9
Share-based payments		4.3	4.2	9.7
Gain on disposal of investments		(1.5)	(0.6)	-
Gain on disposal of property, plant and equipment		-	(0.3)	(0.5)
Movement in fair value of shared equity loan receivables		-	-	(0.4)
Impairment of investments		-	0.3	0.9
Repayment of shared equity loan receivables		0.1	1.0	1.5
Increase/(decrease) in provisions (excluding exceptional building safety items)	10	5.4	(12.7)	(19.5)
Operating cash inflow before movements in working capital		76.0	56.5	139.5
Increase in inventories		(63.5)	(45.7)	(45.4)
Increase in contract assets		(1.0)	(48.9)	(62.0)
(Increase)/decrease in receivables		(19.4)	34.4	(24.4)
Increase/(decrease) in contract liabilities		4.3	(8.2)	(4.3)
(Decrease)/increase in payables		(12.1)	(16.3)	71.6
Movements in working capital		(91.7)	(84.7)	(64.5)
Cash (outflow)/inflow from operations		(15.7)	(28.2)	75.0
Income taxes paid		(9.0)	(14.9)	(20.3)
Net cash (outflow)/inflow from operating activities		(24.7)	(43.1)	54.7
Investing activities				
Interest received		4.2	0.3	1.8
Dividend from joint ventures		2.5	-	1.4
Proceeds on disposal of property, plant and equipment		0.3	0.3	0.6
Purchases of property, plant and equipment		(8.6)	(3.9)	(10.5)
Purchases of intangible fixed assets		(0.3)	(0.5)	(1.3)
Net (increase)/decrease in loans to joint ventures	7	(22.6)	5.4	16.3
Proceeds from the disposal of investments		1.5	0.6	-
Net cash (outflow)/inflow from investing activities		(23.0)	2.2	8.3
Financing activities				
Interest paid		(1.3)	(0.7)	(1.8)
Dividends paid	5	(31.5)	(28.3)	(43.5)
Repayments of lease liabilities		(9.4)	(8.1)	(17.2)
Repayment of borrowings	11	-	-	(0.4)
Proceeds on issue of share capital		-	7.7	10.2
Payments by the Trust to acquire shares in the Company		(2.2)	(15.6)	(15.7)
Proceeds on exercise of share options		0.6	1.4	1.6
Net cash outflow from financing activities		(43.8)	(43.6)	(66.8)

Net decrease in cash and cash equivalents		(91.5)	(84.5)	(3.8)
Cash and cash equivalents at the beginning of the period		354.6	358.4	358.4
Cash and cash equivalents at the end of the period	11	263.1	273.9	354.6

Cash and cash equivalents presented in the consolidated cash flow statement include bank overdrafts. See note 11 for a reconciliation to cash and cash equivalents presented in the consolidated statement of financial position.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2023

	Share capital	Share premium account	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2023	2.4	55.9	1.1	436.8	496.2
Profit for the year	-	-	-	46.3	46.3
Other comprehensive expense	-	-	(0.2)	-	(0.2)
Total comprehensive (expense)/income	-	-	(0.2)	46.3	46.1
Share-based payments	-	-	-	4.3	4.3
Exercise of share options	-	-	-	0.6	0.6
Purchase of shares in the Company by the Trust	-	-	-	(2.2)	(2.2)
Dividends paid	-	-	-	(31.5)	(31.5)
30 June 2023 (unaudited)	2.4	55.9	0.9	454.3	513.5

	Share capital	Share premium account	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2022	2.3	45.8	(1.0)	427.1	474.2
Profit for the period	-	-	-	43.0	43.0
Other comprehensive expense	-	-	0.8	-	0.8
Total comprehensive income	-	-	0.8	43.0	43.8
Share-based payments	-	-	-	4.2	4.2
Issue of shares at a premium	0.1	7.6	-	-	7.7
Exercise of share options	-	-	-	1.4	1.4
Purchase of shares in the Company by the Trust	-	-	-	(15.6)	(15.6)
Dividends paid	-	-	-	(28.3)	(28.3)
30 June 2022 (unaudited)	2.4	53.4	(0.2)	431.8	487.4

	Share capital	Share premium account	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2022	2.3	45.8	(1.0)	427.1	474.2
Profit for the year	-	-	-	60.9	60.9
Other comprehensive income	-	-	2.1	-	2.1
Total comprehensive income	-	-	2.1	60.9	63.0
Share-based payments	-	-	-	9.7	9.7
Tax relating to share-based payments	-	-	-	(3.3)	(3.3)
Issue of shares at a premium	0.1	10.1	-	-	10.2
Exercise of share options	-	-	-	1.6	1.6
Purchase of shares in the Company by the Trust	-	-	-	(15.7)	(15.7)
Dividends paid	-	-	-	(43.5)	(43.5)
31 December 2022 (audited)	2.4	55.9	1.1	436.8	496.2

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (30 June 2022: £0.6m, 31 December 2022: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.9m) (30 June 2022: (£0.8m), 31 December 2022: (£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 £1.2m (30 June 2022: nil, 31 December 2022: £1.3m) 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 2023 was 947,924 (30 June 2022: 1,157,029, 31 December 2022: 1,135,131) with a cost of £19.8m (30 June 2022: £26.6m, 31 December 2022: £26.1m).

Notes to the consolidated financial statements

For the six months ended 30 June 2023

1 Basis of preparation

General information

The financial information for the year ended 31 December 2022 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 2023 and 2022 and for the six months ended 30 June 2023 and 2022 are therefore unaudited.

Basis of preparation

The annual financial statements of Morgan Sindall Group plc are prepared in accordance with UK adopted International Accounting Standards (UK IAS). 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 UK IAS, this half year report does not itself contain sufficient information to comply with UK IAS.

Going concern

As at 30 June 2023, the Group had cash of £326.9m and total loans and borrowings of £63.8m, including £63.8m of overdrafts repayable on demand (together net cash of £263.1m). Should further funding be required the group has 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 going concern period, which the directors have defined as the period from the date of approval of the 30 June 2023 financial statements through to 3 August 2024. 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 going concern period to 3 August 2024. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Tax

A tax charge of £11.7m is shown for the six month period (six months to 30 June 2022: £10.7m, year ended 31 December 2022: £24.4m). 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 2022.

Seasonality

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

Notes to the consolidated financial statements

For the six months ended 30 June 2023

2 Business segments

For management purposes, the Group is organised into six operating divisions: Construction, Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration, and this is the structure of segment information reviewed by the Chief Operating Decision Maker (CODM). The CODM is determined to be the Board of directors and reporting provided to the Board is in line with these six divisions, which have been considered to be the Group's operating segments.

During the six months ended 30 June 2023 the Group has restructured internal management reporting to the CODM, including monthly reports, budgets and forecasts, to present the Construction and Infrastructure businesses separately. Under IFRS 8 this change in reporting to the Board triggered the segments to be reported separately as at 30 June 2023.

The six operating divisions' activities are as follows:

- **Construction:** The Construction division within Morgan Sindall Construction & Infrastructure Ltd focuses on the education, healthcare, commercial, industrial, leisure and retail markets in Construction.
- **Infrastructure:** The Infrastructure division within Morgan Sindall Construction & Infrastructure Ltd focuses on highways, rail, energy, water and nuclear markets in Infrastructure. Infrastructure also includes the BakerHicks design activities based out of the UK and Switzerland.
- **Fit Out:** Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, retail banking and further education. Morgan Lovell plc provides office interior design and build services direct to occupiers.
- **Property Services:** Morgan Sindall Property Services Limited provides response and planned maintenance for social housing and the wider public sector.
- **Partnership Housing:** Lovell Partnerships Limited delivers housing through mixed-tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.
- **Urban Regeneration:** Muse Developments Limited 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.

Group Activities represent 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.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

The Group reports its segmental information as presented below:

Six months to 30 June 2023

	Construction	Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	457.0	422.5	498.0	96.5	365.2	96.0	-	-	1,935.2
Inter-segment revenue	13.0	5.1	0.4	-	7.6	-	-	(26.1)	-
Total revenue	470.0	427.6	498.4	96.5	372.8	96.0	-	(26.1)	1,935.2

Adjusted operating profit/(loss) (Note 14)	12.0	15.9	30.4	(4.1)	10.1	6.0	(11.2)	-	59.1
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Amortisation of intangible assets	-	-	-	(2.2)	-	-	-	-	(2.2)
Exceptional operating items	(8.6)	-	-	-	-	9.0	-	-	0.4
Operating profit/(loss)	3.4	15.9	30.4	(6.3)	10.1	15.0	(11.2)	-	57.3

Finance income									4.3
Finance expense									(3.6)
Profit before tax									58.0

Six months to 30 June 2022 (restated)

	Construction	Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	383.6	371.2	457.0	75.9	283.7	126.1	-	-	1,697.5
Inter-segment revenue	8.6	0.9	-	-	-	-	-	(9.5)	-
Total revenue	392.2	372.1	457.0	75.9	283.7	126.1	-	(9.5)	1,697.5

Adjusted operating profit/(loss) (Note 14)	11.3	12.8	21.2	2.5	13.9	7.3	(12.1)	-	56.9
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Amortisation of intangible assets	-	-	-	(0.9)	-	-	-	-	(0.9)
Operating profit/(loss)	11.3	12.8	21.2	1.6	13.9	7.3	(12.1)	-	56.0

Finance income									0.4
Finance expense									(2.7)
Profit before tax									53.7

Notes to the consolidated financial statements

For the six months ended 30 June 2023

Six months to 30 June 2022 (reported)

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	754.8	457.0	75.9	283.7	126.1	-	-	1,697.5
Inter-segment revenue	9.5	-	-	-	-	-	(9.5)	-
Total revenue	764.3	457.0	75.9	283.7	126.1	-	(9.5)	1,697.5
Adjusted operating profit/(loss) (Note 14)	24.1	21.2	2.5	13.9	7.3	(12.1)	-	56.9
Amortisation of intangible assets	-	-	(0.9)	-	-	-	-	(0.9)
Operating profit/(loss)	24.1	21.2	1.6	13.9	7.3	(12.1)	-	56.0
Finance income								0.4
Finance expense								(2.7)
Profit before tax								53.7

Year ended 31 December 2022 (restated)

	Construction	Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	786.8	758.6	967.5	163.5	691.8	244.0	-	-	3,612.2
Inter-segment revenue	21.0	2.2	-	-	4.4	-	-	(27.6)	-
Total revenue	807.8	760.8	967.5	163.5	696.2	244.0	-	(27.6)	3,612.2
Adjusted operating profit/(loss) (Note 14)	22.6	29.5	52.2	4.3	37.4	18.9	(25.7)	-	139.2
Amortisation of intangible assets	-	-	-	(2.0)	-	-	-	-	(2.0)
Exceptional operating items	-	-	-	-	(5.5)	(43.4)	-	-	(48.9)
Operating profit/(loss)	22.6	29.5	52.2	2.3	31.9	(24.5)	(25.7)	-	88.3
Finance income									2.3
Finance expense									(5.3)
Profit before tax									85.3

Notes to the consolidated financial statements

For the six months ended 30 June 2023

Year ended 31 December 2022 (reported)

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	1,545.4	967.5	163.5	691.8	244.0	-	-	3,612.2
Inter-segment revenue	23.2	-	-	4.4	-	-	(27.6)	-
Total revenue	1,568.6	967.5	163.5	696.2	244.0	-	(27.6)	3,612.2
Adjusted operating profit/(loss) (Note 14)	52.1	52.2	4.3	37.4	18.9	(25.7)	-	139.2
Amortisation of intangible assets	-	-	(2.0)	-	-	-	-	(2.0)
Exceptional operating items	-	-	-	(5.5)	(43.4)	-	-	(48.9)
Operating profit/(loss)	52.1	52.2	2.3	31.9	(24.5)	(25.7)	-	88.3
Finance income								2.3
Finance expense								(5.3)
Profit before tax								85.3

During the period ended 30 June 2023, the period ended 30 June 2022 and the year ended 31 December 2022, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 Exceptional building safety items

	Notes	Six months to 30 June 2023 £m	Six months to 30 June 2022 £m	Year ended 31 Dec 2022 £m
Exceptional building safety provisions recognised	10	4.1	-	39.1
Exceptional building safety (credit)/charge within joint ventures	7	(4.5)	-	9.8
Total exceptional building safety (credit)/charge		(0.4)	-	48.9

The Group signed the Developer Remediation Contract in March 2023 on behalf of all of its divisions. For the year ended 31 December 2022, the Group had recognised a provision for expected costs of £48.9m in relation to its obligations thereunder.

Based on a reassessment of liabilities based on further information during the period, the overall movement in this building safety provision is a net gain of £0.4m and is shown separately as an exceptional profit consistent with prior treatment.

At the period end, the Group had not yet made any reimbursements to the Building Safety Fund for amounts previously granted and drawn on any of the developments for which the Group has taken responsibility for. As notified by the Department of Levelling Up, Housing and Communities ("DLUHC"), any repayments will only be requested upon final completion of all the relevant works. On this basis, any repayments are only likely to commence towards the end of the year at the earliest.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

4 Tax

The UK statutory tax rate changed from 19% to 25% from 1 April 2023. Accordingly the statutory tax rate for the Group for 2023 (taking into account our 31 December year end) is 23.5% for 2023 and is expected to be 25% for 2024 and beyond.

The effective tax rate applied for the period was 20.2% (six months to 30 June 2022: 19.9%, year ended 31 December 2022: 19.8%). This reflects the anticipated full year effective rate before adjusting items, as amended for the tax effect of adjusting items incurred in the first half of the financial year. This is lower than the statutory rate of 23.5% due to a £1.8m net tax credit on exceptional items.

Deferred tax has been measured using the enacted rates that are expected to apply to the period in which each asset or liability is expected to unwind.

The adjusted effective tax rate for the period was 23.4% (six months to 30 June 2022: 20.0%, year ended 31 December 2022: 19.8%) with the difference between the reported and adjusted rates reflecting adjustments to exclude the impact of the amortisation of intangibles and movements within exceptional items.

5 Dividends

Amounts recognised as distributions to equity holders in the period:

	Six months to 30 June 2023 £m	Six months to 30 June 2022 £m	Year ended 31 Dec 2022 £m
Final dividend for the year ended 31 December 2022 of 68.0p per share	31.5	-	-
Final dividend for the year ended 31 December 2021 of 62.0p per share	-	28.3	28.3
Interim dividend for the year ended 31 December 2022 of 33.0p per share	-	-	15.2
	31.5	28.3	43.5

A proposed interim dividend of 36.0p per share for 2023 was approved by the Board on 1 August 2023 and will be paid on 26th October 2023 to shareholders on the register at 6 October 2023. The ex-dividend date is 5 October 2023.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

6 Earnings per share

	Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 Dec 2022
	£m	£m	£m
Profit attributable to the owners of the Company	46.3	43.0	60.9
Adjustments:			
Exceptional operating items net of tax	(2.2)	-	46.7
Amortisation of intangible assets net of tax	1.7	0.7	1.6
Adjusted earnings	45.8	43.7	109.2
Basic weighted average ordinary shares (m)	46.3	45.6	45.9
Dilutive effect of share options and conditional shares not vested (m)	0.7	1.2	0.8
Diluted weighted average ordinary shares (m)	47.0	46.8	46.7
Basic earnings per share	100.0p	94.3p	132.7p
Diluted earnings per share	98.5p	91.9p	130.4p
Adjusted earnings per share	98.9p	95.8p	237.9p
Diluted adjusted earnings per share	97.4p	93.4p	233.8p

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 average share price for the period was £17.35 (30 June 2022: £21.77, 31 December 2022: £19.12).

A total of 4,835,809 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 2023 (30 June 2022: 712,103, 31 December 2022: 681,571).

7 Investments in joint ventures

Investments in equity accounted joint ventures are as follows:

		Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 Dec 2022
	Notes	£m	£m	£m
1 January		84.0	94.1	94.1
Equity accounted share of net profits:				
Underlying share of net profits		3.8	3.1	14.3
Exceptional building safety credit/(charge)	3	4.5	-	(9.8)
		8.3	3.1	4.5
Loans advanced to joint ventures		26.9	10.9	18.3
Loans repaid by joint ventures		(4.3)	(16.3)	(34.6)
Non-cash impairment		-	-	(0.9)
Dividends received		(2.5)	-	(1.4)
Reclassification (from)/to funding obligations payable	9	(4.0)	-	4.0
End of period		108.4	91.8	84.0

During the six months ended 30 June 2023, an exceptional building safety credit of £4.5m has been recognised in respect of the Group's share of constructive and legal obligations to remediate legacy building safety issues within joint ventures.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

8 Trade and other receivables

	30 June 2023	30 June 2022	31 Dec 2022
	£m	£m	£m
Amounts falling due within one year			
Trade receivables	253.4	180.7	243.6
Amounts owed by joint ventures	12.6	0.4	9.2
Prepayments	20.2	20.2	13.0
Insurance receivables	4.3	10.9	4.8
Other receivables	30.8	29.5	36.0
	321.3	241.7	306.6
Amounts falling due after more than one year			
Trade receivables	51.5	51.9	46.4
	51.5	51.9	46.4
Trade and other receivables	372.8	293.6	353.0

The Group holds third party insurances that may mitigate the contract and legal liabilities described in note 10 - Provisions. Insurance receivables are recognised when reimbursement from insurers is virtually certain.

9 Trade and other payables

	30 June 2023	30 June 2022	31 Dec 2022
	£m	£m	£m
Trade payables	207.1	191.3	165.4
Amounts owed to joint ventures	0.2	0.2	4.2
Other tax and social security	95.3	83.5	107.0
Accrued expenses	599.9	581.4	637.7
Deferred income	3.6	2.8	5.8
Land creditors	26.7	8.6	30.8
Other payables	16.6	10.4	12.3
Current	949.4	878.2	963.2
Land creditors	36.5	29.7	30.9
Other payables	-	-	6.4
Non-current	36.5	29.7	37.3

Notes to the consolidated financial statements

For the six months ended 30 June 2023

10 Provisions

	Building Safety	Self-insurance	Contract & legal	Other	Total
	£m	£m	£m	£m	£m
1 January 2022	-	21.2	33.4	2.7	57.3
Utilised	-	(0.7)	-	-	(0.7)
Additions	-	3.1	8.9	0.6	12.6
Released	-	-	(24.1)	(0.5)	(24.6)
30 June 2022	-	23.6	18.2	2.8	44.6
Utilised	(0.8)	(0.3)	(6.5)	(0.2)	(7.8)
Additions	39.1	0.9	4.3	0.7	45.0
Released	-	(4.4)	(0.3)	(0.2)	(4.9)
1 January 2023	38.3	19.8	15.7	3.1	76.9
Utilised	(0.3)	(0.8)	(1.0)	(0.1)	(2.2)
Additions	8.6	3.1	6.9	0.5	19.1
Released	(4.5)	-	(2.0)	(0.9)	(7.4)
30 June 2023	42.1	22.1	19.6	2.6	86.4
Current	42.1	-	19.6	1.2	62.9
Non-current	-	22.1	-	1.4	23.5
30 June 2023	42.1	22.1	19.6	2.6	86.4

Building Safety provisions

During 2022 the Partnership Housing division signed the Developers Pledge (the “Pledge”) with the Department of Levelling Up, Housing and Communities (“DLUHC”) setting out the principles under which life critical fire-safety issues on buildings that they have developed of 11 meters and above are to be remediated. A letter was also received from DLUHC requesting information to assess whether it may be appropriate for Urban Regeneration to also commit to the principles of the Pledge as part of its commitment to support the remediation of historic cladding and fire safety defects over and above its obligations under the new Building Safety Act. The Group subsequently signed the Developer Remediation Contract in March 2023 on behalf of all of its divisions.

Management review legal and constructive obligations with regard to remedial work to rectify legacy building safety issues. Where obligations exist, these have been evaluated for the likely cost to address, including repayments of the Building Safety Fund. As a result of this review process provisions are recognised, as reported in the table above, excluding those recognised in joint ventures.

Self-insurance provisions

Self-insurance provisions comprise the Group’s self-insurance of certain risks and include £13.1m (30 June 2022: £11.1m, 31 December 2022: £11.1m) held in the Group’s captive insurance company, Newman Insurance Company Limited (the ‘Captive’).

The Group makes provisions in respect of specific types of claims incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Contract and legal provisions

Contract and legal provisions include liabilities, loss provisions, defect and warranty provisions on contracts that have reached completion.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

The Group also holds third party insurances that may mitigate the liabilities. Third party insurance reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. See note 8 for details of mitigating insurance assets recognised at the period end.

Other provisions

Other provisions include property dilapidations and other personnel related provisions.

The majority of the provisions are expected to be utilised within 10 years.

11 Net cash

	30 June 2023	30 June 2022	31 Dec 2022
	£m	£m	£m
Cash and cash equivalents	326.9	352.3	431.7
Bank overdrafts presented as borrowings due within one year	(63.8)	(78.4)	(77.1)
Cash and cash equivalents reported in the consolidated cash flow statement	263.1	273.9	354.6
Borrowings due between two and five years	-	(0.4)	-
Net cash	263.1	273.5	354.6

Included within cash and cash equivalents is £36.8m which is the Group's share of cash held within jointly controlled operations (30 June 2022: £50.1m, 31 December 2022: £38.0m). There is £4.2m included within cash and cash equivalents held for future payments to designated suppliers (30 June 2022: £8.6m, 31 December 2022: £11.1m).

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £15m mature in June 2026 and £165m in October 2026. These facilities are undrawn at 30 June 2023.

12 Contingent liabilities

Building Safety

At 30 June 2023, the Group held provisions totalling £47.4m, including those related to joint ventures, in respect of liabilities arising from commitments made under the Pledge. This represents managements best estimate of the cost and timing of remedial works required and repayments to the Building Safety Fund.

The ongoing legislative and regulatory changes in respect of legacy building safety issues create uncertainty around the extent of remediation required for legacy buildings, the liability for such remediation, recoveries from other parties and the time to be considered. It is possible that as remediation work proceeds, additional remedial works are required that may not have been identified from the reviews and physical inspections undertaken to date. The scope of buildings and remediation works to be considered may also change as legislation and regulations continue to evolve.

Uncertainties also exist in respect of the timing and extent of expected recoveries from other third parties involved in developments for which no assets have been recognised at 30 June 2023.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

13 Subsequent events

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

14 Adjusted Performance Measures

In addition to monitoring and reviewing the financial performance of the operating segments and the Group on a statutory basis, management also use adjusted performance measures which are also disclosed in the Annual Report. These measures are not an alternative or substitute to statutory IFRS measures but are seen by management as useful in assessing the performance of the business on a comparable basis. These financial measures are also aligned to the measures used internally to assess business performance in the Group's budgeting process and when determining compensation. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. There are four alternative performance measures used by management and disclosure in the Annual Report which are:

'Adjusted'

In all cases the term 'adjusted' excludes the impact of intangible amortisation and exceptional items. This is used to improve the comparability of information between reporting periods and aid the reader's understanding of the activities across the Group's portfolio.

Below is a reconciliation between the reported Gross profit, Operating profit and Profit before tax measures on a statutory basis and the adjustment made to calculate Adjusted Gross profit, Adjusted Operating profit and Adjusted Profit before tax.

Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation and exceptional items, and the deferred tax charge arising due to changes in UK corporation tax rates. See note 6 for a detailed reconciliation of the adjusted EPS measures.

Gross profit

	Six Months to 30 June 2023	Six Months to 30 June 2022	Year ended 31 Dec 2022
	£m	£m	£m
Reported	211.4	192.8	370.9
<i>Add back: exceptional building safety charge¹</i>	4.1	-	39.1
Adjusted	215.5	192.8	410.0

¹ The exceptional building safety charge includes a £4.1m charge recognised in Cost of sales. See note 3.

Operating profit

	Six Months to 30 June 2023	Six Months to 30 June 2022	Year ended 31 Dec 2022
	£m	£m	£m
Reported	57.3	56.0	88.3
<i>Add back: exceptional building safety (credit)/charge²</i>	(0.4)	-	48.9
<i>Add back: amortisation of intangible assets</i>	2.2	0.9	2.0
Adjusted	59.1	56.9	139.2

² The exceptional building safety charge includes a £4.1m charge recognised in Cost of sales and a £4.5m credit recognised in Share of net profit of joint ventures. See note 3.

Notes to the consolidated financial statements

For the six months ended 30 June 2023

Profit before tax

	Six Months to 30 June 2023 £m	Six Months to 30 June 2022 £m	Year ended 31 Dec 2022 £m
Reported	58.0	53.7	85.3
<i>Add back: exceptional building safety (credit)/charge²</i>	(0.4)	-	48.9
<i>Add back: amortisation of intangible assets</i>	2.2	0.9	2.0
Adjusted	59.8	54.6	136.2

'Net cash'

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing. Lease liabilities are not deducted from net cash. A reconciliation of this number at the reporting date can be found in note 11. In addition, management monitor and review average daily net cash as good discipline in managing capital. Average daily net cash is defined as the average of the 365 end of day balances of the net cash over the course of a reporting period.

'Operating cash flow'

Management use an adjusted measure for operating cash flow as it encompasses other cashflows that are key to the ongoing operations of the Group such as repayments of lease liabilities, investment in property, plant and equipment, investment in intangible assets, and returns from equity accounted joint ventures. Operating cash flow can be derived from the cash inflow from operations reported in the consolidated cash flow statement as shown below.

Operating cash flow conversion is operating cash flow divided by adjusted operating profit as defined above.

	Six months to 30 June 2023 £m	Six months to 30 June 2022 £m	Year ended 31 Dec 2022 £m
Cash inflow from operations - Reported	(15.7)	(28.2)	75.0
Dividends from joint ventures	2.5	-	1.4
Proceeds on disposal of property, plant and equipment	0.3	0.3	0.6
Purchases of property, plant and equipment	(8.6)	(3.9)	(10.5)
Purchases of intangible fixed assets	(0.3)	(0.5)	(1.3)
Repayments of lease liabilities	(9.4)	(8.1)	(17.2)
Operating cash flow	(31.2)	(40.4)	48.0

'Return on capital employed'

Management use return on capital employed (ROCE) in assessing the performance and efficient use of capital within the Regeneration activities. ROCE is calculated as adjusted operating profit plus interest received from joint ventures divided by average capital employed. Average capital employed is the 12-month average of total assets (excluding goodwill, other intangible assets and cash) less total liabilities (excluding corporation tax, deferred tax, intercompany financing and overdrafts).

The directors confirm that to the best of their knowledge:

- the unaudited condensed consolidated financial statements, which have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting', 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
Chief Executive

Steve Crummett
Finance Director

2 August 2023