MORGAN SINDALL GROUP

Half-year Report

Released : 08.08.17 07:00

RNS Number : 3354N
Morgan Sindall Group PLC
08 August 2017

8 August 2017

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

The Construction & Regeneration Group

RESULTS FOR THE HALF YEAR (HY) ENDED 30 JUNE 2017

Strong profit growth in HY 2017

	HY 2017	HY 2016	Change
Revenue	£1,307m	£1,148m	+14%
Operating profit - adjusted[1]	£24.9m	£18.2m	+37%
Profit before tax - adjusted[1]	£23.7m	£16.1m	+47%
Earnings per share - adjusted[1]	43.6p	29.8p	+46%
Period end net cash	£97m	£36m	+£61m
Average daily net cash/(debt)	£132m	(£24m)	+£156m
Interim dividend per share	16.0p	13.0p	+23%
Operating profit - reported	£24.3m	£17.5m	+39%
Profit before tax - reported	£23.1m	£15.4m	+50%
Basic earnings per share - reported	42.5p	28.5p	+49%

[1] *'Adjusted' is defined as before intangible amortisation (£0.6m) (HY 2016: before intangible amortisation (£0.7m))*

HY 2017 summary:

- Strong profit growth, with adjusted profit before tax up 47%
- Significant improvement in cash; average daily net cash of £132m
- Order book up 5% to £3.8bn
- Interim dividend increased 23% to 16.0p per share
- Divisional highlights:
    - Excellent performance from Fit Out; adjusted operating profit up 27% to £14.6m and further margin progression, up to 4.3% (HY 2016: 3.9%). Another record order book
    - Continued margin improvement in Construction & Infrastructure; operating margin up to 1.1% (HY 2016: 0.5%) and adjusted operating profit of £7.6m
    - Growth in Partnership Housing; adjusted operating profit up 20% to £5.5m. Second half weighting to results
    - Good operational progress made with Urban Regeneration's development schemes; further profit growth

from Property Services; small contribution from Investments

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

"This is a strong set of results, driven by another period of margin and profit growth in Fit Out and further progress on margin recovery in Construction & Infrastructure. Reflecting our overall profit performance, our strong balance sheet and cash performance, and our confidence in the quality of our business, we are increasing the interim dividend by 23% to 16p per share.

With the current trading patterns in Fit Out and the forward visibility provided by the size and quality of its order book, together with further margin improvement in Construction & Infrastructure and an increase in scheme completions in Partnership Housing and Urban Regeneration, we are confident of another strong performance by the Group in the second half."

Enquiries

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Presentation

- There will be an analyst and investor presentation at 09.00 at Numis Securities Limited, the London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. Coffee and registration will be from 08.30
- A copy of these results is available at www.morgansindall.com
- Today's presentation will be available via live webcast from 09.00 at www.morgansindall.com. A recording will also be available via playback in the afternoon.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £2.6bn, employing around 6,100 people and operating in the public, regulated and private sectors. It reports through six divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments.

Group Strategy

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

Its 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 to 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 affordable housing and regeneration needs.

The Group is also well positioned to meet the increasing demand for ongoing investment in the UK's infrastructure, working on some of the UK's most high profile infrastructure projects (through its Construction & Infrastructure division). Its geographically diverse construction activities are focused on key areas of education, healthcare and defence (through its Construction & Infrastructure division).

The Fit Out business holds a leading position within its market and delivers a consistently strong operational performance. Fit Out, together with the Construction & Infrastructure division, generates cash resources to support the Group's investment in affordable housing and mixed-use regeneration.

Additionally, the Group has a presence in Property Services whilst the Investments business acts as a facilitator and provides opportunities across construction and regeneration activities.

Group Structure

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

Construction activities comprise the following operations:

- ***Construction & Infrastructure***: Focused on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure; and focused on the education, healthcare, defence, commercial, industrial, leisure and retail markets in Construction
- ***Fit Out***: Focused on the fit out of office space with opportunities in commercial, central and local government offices, further education and retail banking
- ***Property Services***: Focused on response maintenance activities provided to the social housing, insurance and general commercial sectors

Regeneration activities comprise the following operations:

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

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

Basis of Preparation

The term 'adjusted' excludes the impact of intangible amortisation of £0.6m (HY 2016: intangible amortisation of £0.7m).

Group Review

The Group has delivered a strong performance in the first half, driven primarily by margin and profit growth in Fit Out and by margin improvement in Construction & Infrastructure. Partnership Housing and Urban Regeneration have both traded as expected, with Urban Regeneration lower than in the prior year period due to the phasing of its scheme completions. In addition, the first half has seen modest profit contributions from both Property Services and Investments.

All key metrics reflect positive progress, with Group revenue up 14% to £1,307m (HY 2016: £1,148m), adjusted operating profit up 37% to £24.9m (HY 2016: £18.2m) and operating margin up 30 bps to 1.9% (HY 2016: 1.6%).

On a divisional basis, Construction & Infrastructure improved its margin to 1.1% (HY 2016: 0.5%), consistent with its focus on quality of earnings and contract selectivity. This resulted in operating profit of £7.6m, up 138% on the prior year off revenue of £694m, up 13%. Fit Out had a particularly strong period, with revenue of £339m up 15% and its operating margin up to 4.3% (HY 2016: 3.9%), generating operating profit of £14.6m, up 27%. Partnership Housing delivered growth in both profit and margin, with operating profit up 20% to £5.5m and a margin of 2.8% (HY 2016: 2.5%) and is expected to show a second half weighting to its performance. In line with its schedule of scheme development completions, Urban Regeneration's result was lower than the prior year period generating £2.0m of operating profit (HY 2016: £4.6m). Additionally there were modest profit contributions of £0.3m from Property Services and £0.6m from Investments.

The net finance expense reduced to £1.2m (HY 2016: £2.1m) primarily as a result of a lower interest charge, which resulted in an adjusted profit before tax of £23.7m, up 47% (HY 2016: £16.1m). The statutory profit before tax was £23.1m compared to £15.4m in the prior year, up 50%.

The tax charge of £4.4m equates to the UK statutory rate.

The adjusted earnings per share of 43.6p was 46% up on the prior year (HY 2016: 29.8p), while the statutory earnings per share was 42.5p (HY 2016: 28.5p).

The Group is well set in terms of visible future workload, with the committed order book at 30 June 2017 up 5% to £3,801m. Within this, Fit Out ended the period with a record order book of £568m, up 22% from the year end position, while Construction & Infrastructure's order book increased 8% to £2,029m. The regeneration & development pipeline grew by 2%.

The cash performance has continued to be strong and the balance sheet reflects this. The average daily net cash for the period increased significantly to £132m (HY 2016: daily average net debt of £24m), of which £8m (HY 2016: £16m) was non-recourse debt. At the period end, the Group had net cash of £97m (HY 2016: £36m), which included £15m of non-recourse debt (HY 2016: £19m).

In the first half of the year there has been an operating cash outflow of £86.5m and a free cash outflow of £96.3m. Over the last twelve month period to 30 June 2017, there has been an operating cash inflow of £109.1m and a free cash inflow of £95.2m.

The average daily net cash position is expected to reduce in the second half of the year due to the phasing and timing of investments specifically in Partnership Housing and Urban Regeneration. Based upon current forecasts and the actual position reported for the first half, the average daily net cash for the full year is expected to be no less than £75m, significantly higher than previous estimates.

During the period, the Group secured £180m of new five-year committed revolving credit facilities replacing the previous facilities which were due to expire in 2018. Due to the continued strong cash performance of the Group, the new facilities were not utilised in the period, however they provide ongoing funding headroom and financial security for the Group out to 2022. The facilities build upon the Group's existing strong bank relationships, and are on similar terms and conditions to the previous facilities.

The interim dividend has been increased by 23% to 16.0p per share (HY 2016: 13.0p), reflecting the current performance and the Board's confidence in the future prospects of the Group.

Outlook

The current trading patterns in Fit Out and the forward visibility provided by the size and quality of its order book, together with further margin improvement in Construction & Infrastructure and an increase in scheme completions in Partnership Housing and Urban Regeneration, provide confidence of another strong performance by the Group in the second half of the year.

Business Review

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

Headline results by business segment

	Revenue		Operating Profit/(Loss)		Operating Margin	
	£m	**change**	**£m**	**change**	**%**	**change**
Construction & Infrastructure	694	+13%	7.6	+138%	1.1%	+60bps
Fit Out	339	+15%	14.6	+27%	4.3%	+40bps
Property Services	31	+15%	0.3	+200%	1.0%	+60bps
Partnership Housing	200	+9%	5.5	+20%	2.8%	+30bps
Urban Regeneration	71	+78%	2.0	-57%	n/a	n/a
Investments	5	n/a	0.6	n/a	n/a	n/a
Central/Eliminations	(33)		(5.7)			
Total	**1,307**	**+14%**	**24.9**	**+37%**	**1.9%**	**+30bps**

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Order book and regeneration & development pipeline

The Group's committed order book* at 30 June 2017 was £3,801m, an increase of 5% from the previous year end. The divisional split is shown below.

	HY 2017	FY 2016	Change

	£m	£m	
Construction & Infrastructure	2,029	1,886	+8%
Fit Out	568	466	+22%
Property Services	705	687	+3%
Partnership Housing	377	445	-15%
Urban Regeneration	155	203	-24%
Investments	9	16	-44%
Inter-divisional eliminations	(42)	(66)	
Group committed order book	**3,801**	**3,637**	**+5%**

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

In addition, the Group's regeneration & development pipeline** was £3,283m, an increase of 2% on the previous year end.

	HY 2017 £m	FY 2016 £m	Change
Partnership Housing	853	764	+12%
Urban Regeneration	2,230	2,233	-
Investments	200	213	-6%
Group regeneration & development pipeline	**3,283**	**3,210**	**+2%**

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

Divisional Performances

A. Construction & Infrastructure

	HY 2017 £m	HY 2016 £m	Change
Revenue	694	612	+13%
Operating profit - adjusted	7.6	3.2	138%
Operating margin - adjusted	1.1%	0.5%	+60bps

Divisional revenue of £694m was up 13% on the prior year (HY 2016: £612m)**. *Construction*** *(including Design)* accounted for 59% of divisional revenue at £409m, which was up 17% compared to the prior year. ***Infrastructure*** was 41% of divisional revenue at £285m, up 9% on the prior year.

Operating profit increased to £7.6m (HY 2016: £3.2m) at an improved operating margin of 1.1%, up from 0.5% in the prior year, maintaining the progress back towards normalised margin levels and which is expected to continue in the second half.
The committed order book for the division at the period end was £2,029m, up 8% on the year end position. Infrastructure continued to grow its order book, up 16% from the year end to £1,500m. The Construction order book was £529m, down 10% on the year end, reflecting the continued focus on contract selectivity and risk management. Of the Construction order book, 87% by value has been derived through negotiated/framework/two-stage procurement processes, with 13% from competitive tender processes.

In ***Infrastructure***, work is progressing with London Underground's 'Future Stations' Civils and Tunnelling Works framework, awarded at the end of 2016, while in Highways, work has commenced on a c£100m project, in joint venture, to repair the M5's Oldbury viaduct which will see repairs to a 3.5 km stretch of the motorway. Additionally, work has started on the construction phase of the seven-year joint venture project to deliver the western section of the Thames Tideway Tunnel, valued at c£500m. This builds on the successful delivery of the four-mile long Lee Tunnel, which was designed and built in joint venture for Thames Water.

Key appointments in the period include a two-year extension to the original three-year Framework Agreement with Western Power Distribution to deliver Excavation, Cable Laying and Reinstatement Works within their West Midlands region. Initial appointment to this Framework was in October 2014, with an estimated annual value of c £30m+.

In ***Construction***, the focus remains on improving its quality of earnings through contract selectivity and operational delivery. In the education sector, ongoing projects include the delivery of a new £25m Science Centre for Anglia Ruskin University and a £40m Collaborative Teaching Laboratory (CTL) for the University of Birmingham. In other sectors, ongoing projects include the £24m extension of car storage and handling facilities at the Port of Southampton.

Work won in the period includes the appointment to three major Scottish local authority main contractor frameworks - Aberdeenshire Council main contractor framework, the City of Edinburgh's first major project main contractor framework and hub South West Scotland framework. Each framework is expected to be used as the procurement route for a series of schools, offices and other community facilities. In addition, Construction has been appointed by Liverpool City Council to deliver two projects worth a combined total of £47m as part of the local authority's Paddington Village scheme - a planned £1bn extension to Liverpool's Knowledge Quarter.

B. Fit Out

	HY 2017 £m	HY 2016 £m	Change
Revenue	339	294	+15%
Operating profit - adjusted	14.6	11.5	+27%
Operating margin - adjusted	4.3%	3.9%	+40bps

Fit Out has delivered another period of strong growth, with revenue increasing by 15% up to £339m (HY 2016: £294m) and continued margin improvement, with the operating margin increasing to 4.3% (HY 2016: 3.9%). The operating profit was up 27% to £14.6m.

The strong operational performance has been supported by further gains in winning work. At 30 June, the committed order book had increased to another record for the division, up to £568m, an increase of 22% on the year end position (FY 2016: £466m) and up 52% on the prior year period (HY 2016: £373m). Importantly, of the total order book of £568m, £325m (57%) is secured for the second half of the year, with £223m (39%) secured for 2018 and the remainder for 2019. This provides the forward visibility for the second half of the year.

The London region accounted for 67% of revenue (HY 2016: 63%), with other regions at 33% (HY 2016: 37%). Split by type of work, 83% of revenue was traditional fit out work (HY 2016: 80%), compared to 17% 'design & build' (HY 2016: 20%).

66% of revenue related to the fit out of existing office space (HY 2016: 71%) (which includes 23% refurbishment 'in occupation'), with 34% being new office fit out (HY 2016: 29%).

The commercial office sector remained the largest sector served at 83% of revenue, with higher education the second largest at 12% of revenue.

New contract wins in the period include: an extensive £35m refurbishment of the Bush House buildings for King's College London, as part of its Aldwych Quarter acquisition; a 57,000 sq ft fit out for Amazon in Cambridge; and a 42,000 sq ft fit out for EY in Manchester. The division was also appointed to all three lots of the four-year Government Hubs Programme fit out framework by the Government Property Unit and will deliver nationwide projects, both above and below £25m.

C. Property Services

	HY 2017 £m	HY 2016 £m	Change
Revenue	31	27	+15%
Operating profit - adjusted	0.3	0.1	+200%
Operating margin - adjusted	1.0%	0.4%	+60bps

Property Services made further progress in the period, delivering operating profit of £0.3m (HY 2016: £0.1m) off revenue of £31m, up 15%. The operating margin increased to 1.0%, up from 0.4% in the prior year. Activity is expected to increase in the second half as more recent contract wins become mobilised.

The committed order book grew 3% from the year end position to £705m. This included the award of a place on the £52m planned maintenance framework for Network Homes, which manages over 19,000 homes in 36 local authority areas covering mainly London and the Home Counties and the award of a 10-year, £38m contract by social housing provider EastendHomes, to provide repairs, maintenance and refurbishment services across its properties in Tower Hamlets, east London.

Subsequent to the period end and therefore not included in the committed order book were the award of a number of repairs and maintenance contracts by CityWest Homes (Westminster City Council's Arm's Length Management Organisation) with an expected value of £219m over 10 years.

D. Partnership Housing

	HY 2017 £m	HY 2016 £m	Change

Revenue	200	183	+9%
Operating profit - adjusted	5.5	4.6	+20%
Operating margin - adjusted	2.8%	2.5%	+30bps
Average capital employed[1] (last 12 months)	94.6	126.4	
Capital employed[1] at period end	102.4	119.2	

Revenue increased by 9% in the period up to £200m (HY 2016: £183m), driven by growth in the Contracting activities. ***Mixed-tenure*** revenue was £58m, down 25% from the prior year period (HY 2016: £77m), although this is expected to significantly increase in the second half as developments and sales complete. ***Contracting*** revenue (including planned maintenance and refurbishment) increased by 34% to £142m (HY 2016: £106m), with an increase in new build social housing contracting more than offsetting a reduction in revenue from planned maintenance and refurbishment.

On the mixed-tenure side of the business, 315 units (HY 2016: 423) were completed across the open market sales and the social housing element of mixed-tenure at an average sales price of £184k (HY 2016: £181k).

Operating profit increased to £5.5m, up 20% from £4.6m with the operating margin also increasing, up to 2.8% (HY 2016: 2.5%). Due to the timing of anticipated development and sales completions in the mixed-tenure activities, a stronger second half profit performance is expected.

A number of key projects have commenced during the period, including a £46m regeneration scheme at Ponders End in partnership with the London Borough of Enfield to create c160 affordable and open market homes. In addition, the period has seen the continuation of the second phase of the Toxteth Street regeneration scheme in Manchester to create c160 homes, with a further phase of 100 homes planned for future commencement. In Telford, a £12m project to deliver over 90 homes for rent and open market sale, working in partnership with the Council-owned local housing company is ongoing.

The capital employed at the period end was £102.4m, with the average capital employed for the last twelve month period of £94.6m. The Return on Capital Employed[2] ('ROCE') increased significantly to 15%, up from 8% in the prior year (12 months ended 30 June 2016). Since the year end, capital employed has increased by £38.5m and is expected to increase further in the second half, up towards £120m. Over the next five-year period, the divisional ambition is to increase capital employed to c£250m.

In mixed-tenure, the regeneration & development pipeline increased by 12% compared to the year end position, up to £853m (FY 2016: £764m), while the committed order book for the contracting element in mixed-tenure decreased 38% to £87m. On the contracting side of the business, the committed order book decreased 5% to £290m compared to the year end position.

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

[2] Return On Capital Employed = Adjusted operating profit for the last twelve months divided by average capital employed for the last twelve months.

E. <u>Urban Regeneration</u>

	HY 2017 £m	HY 2016 £m	Change
Revenue	71	40	+78%
Operating profit - adjusted	2.0	4.6	-57%
Average capital employed[1] (last 12 months)	79.4	84.1	
Capital employed[1] at period end	88.7	75.2	

As expected, the phasing of scheme completions within Urban Regeneration's development portfolio led to a lower operating profit of £2.0m (HY 2016: £4.6m), with a number of its development completions weighted towards the second half of the year. The benefits of the current activity across the portfolio are expected to see an increase in profits in 2018.

Capital employed at the period end was £88.7m, with average capital employed for the last twelve months of £79.4m. Since the year end, the capital employed has increased by £19.8m and the average capital employed for the full year is expected to be in excess of £90m. As a result of the lower profit in the first half, the ROCE[2] was 12%. Over the next five-year period, the divisional ambition is to increase capital employed to c£150m.

Main profit contributors in the period were ongoing development management fees from the Warrington Bridge Street quarter regeneration scheme, completion of a new Health Centre as part of the Swindon town centre regeneration development programme, and profits from a number of phases of development (including final sales of residential units at Timekeeper's Square) within English Cities Fund's (ECf's) £650m Salford Central regeneration scheme. ECf is a joint venture with Legal & General and the Homes & Communities Agency.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts). At the period end, non-recourse debt was £15.2m (HY 2016: £18.7m). Average non-recourse debt over the last twelve months was £11.2m (HY 2016: £18.2m).

[2] Return On Capital Employed = (Adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration for the last twelve months) divided by (average capital employed for the last twelve months). Interest and fees on non-recourse debt was £1.0m (HY 2016: £1.2m) and the unwind of discount on deferred consideration was £0.3m (HY 2016: £0.4m).

F. Investments

	HY 2017 £m	HY 2016 £m	Change
Operating profit/(loss) - adjusted	0.6	(0.8)	

The strategic rationale for Investments is to secure prime long-term construction and regeneration opportunities for other divisions and to create additional value for the Group from capital employed in these schemes. During the period, £63m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure). A further £61m of work was secured for future delivery.

During the period, Investments made a profit of £0.6m. Profits were generated mainly from its Milestone residential development which is due for completion by late summer and is part of the division's strategic property partnership joint venture with Slough Borough Council.

In Health, the company commenced a £40m development of two Health & Care centres in Glasgow via its 'hub West Scotland' joint venture as well as additionally announcing a new strategic partnership with Oxleas NHS Foundation Trust to deliver its Strategic Estate Partnership (SEP) for an initial 10 year period.

Other Financial Information

1. Net finance expense. Net finance expense was £1.2m, a £0.9m decrease versus HY 2016 which is broken down as follows:

	HY 2017 £m	HY 2016 £m	% change
Net interest charge on net debt	(0.2)	(1.1)	+82%
Amortisation of bank fees & non-utilisation fees	(1.4)	(1.0)	-40%
Interest from JVs	0.6	0.4	+50%
Other	(0.2)	(0.4)	+50%
Total net finance expense	**(1.2)**	**(2.1)**	**+43%**

2. Tax. A tax charge of £4.4m is shown for the period (HY 2016: £2.9m).

	HY 2017 £m	HY 2016 £m
Profit before tax	23.1	15.4
Less: share of net profit in taxed joint ventures[#]	-	(0.7)
Profit before tax excluding joint ventures	**23.1**	**14.7**
Statutory tax rate	19.25%	20.0%
Current tax charge at statutory rate	**(4.4)**	**(2.9)**
Other adjustments	-	-
Tax charge	**(4.4)**	**(2.9)**

[#] *certain of the Group's joint ventures are partnerships where profits are taxed within the joint venture rather than the Group*

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

	HY 2017 £m	HY 2016 £m	Change £m
Inventories	270.9	256.7	+14.2
Trade & Other Receivables[1]	428.5	381.1	+47.4
Trade & Other Payables[2]	(786.2)	(681.6)	-104.6
Net working capital	**(86.8)**	**(43.8)**	**-43.0**

1 Adjusted to exclude capitalised arrangement fees (£1.6m) (HY 2016: £1.1m) and derivative financial assets (£2.0m) (HY 2016: £nil)

2 Adjusted to exclude deferred consideration payable (£7.5m) (HY 2016: £14.2m), accrued interest (£0.2m) (HY 2016: £0.4m) and derivative financial liabilities (£1.3m) (HY 2016: £nil)

4. Cash flow. Operating cash flow for the 12 months to 30 June 2017 was an inflow of £109.1m and a free cash inflow of £95.2m. For the half year period to 30 June 2017, there was an operating cash outflow of £86.5m (HY 2016: outflow of £15.7m).

	HY 2017 £m	HY 2016 £m	Last 12 months
Operating profit - adjusted	**24.9**	**18.2**	**55.5**
Depreciation	2.5	2.6	5.4
Share option expense	2.0	1.1	5.5
Movement in fair value of shared equity loans	(0.3)	(0.7)	(0.2)
Share of net profit of joint ventures	(2.0)	(3.9)	(5.5)
Other operating items [1]	4.3	3.5	6.7
Change in working capital	(116.8)	(34.6)	43.0
Net capital expenditure (including repayment of finance leases)	(1.7)	(2.3)	(3.8)
Dividends and interest received from joint ventures	0.6	0.4	2.5
Operating cash flow	**(86.5)**	**(15.7)**	**109.1**
Income taxes paid	(6.3)	(0.1)	(9.5)
Net interest paid (non-joint venture)	(3.5)	(2.0)	(4.4)
Free cash flow	**(96.3)**	**(17.8)**	**95.2**

1 'Other operating items' in the current period includes provision movements (£2.3m), shared equity redemptions (£1.8m), investment property disposals (£0.3m), less additional pension contributions (£nil) and gains on disposals (£0.1m)

5. Net cash. Net cash at the period end was £97.1m, as a result of a net cash outflow of £111.6m from 1 January 2017.

	£m
Net cash as at 1 January 2017	**208.7**
Free cash flow (as above)	(96.3)
Dividends	(9.7)
Other[1]	(5.6)
Net cash as at 30 June 2017	**97.1**

1 'Other' includes net loans advanced to JVs (£4.9m), net outflow in relation to the exercise of share options (£0.8m), less proceeds from issue of new shares (£0.1m)

6. Capital employed by strategic activity. An analysis of the negative capital employed in the **Construction** activities shows an improvement of £30.6m since the previous year, split as follows:

Capital employed[1] in Construction	**HY 2017 £m**	**HY 2016 £m**	**Change £m**
Construction & Infrastructure	(193.2)	(160.9)	-32.3
Fit Out	(42.9)	(38.3)	-4.6
Property Services	10.1	3.8	+6.3
	(226.0)	**(195.4)**	**-30.6**

An analysis of capital employed in the **Regeneration** activities shows a decrease of £3.3m since the previous year, split as follows:

Capital employed in Regeneration	**HY 2017 £m**	**HY 2016 £m**	**Change £m**
Partnership Housing[2]	102.4	119.2	-16.8
Urban Regeneration[2]	88.7	75.2	+13.5
	191.1	**194.4**	**-3.3**

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

7. Dividends. The Board of Directors has proposed an interim dividend of 16.0p per share (HY 2016: 13.0p), up 23% on the prior year. This will be paid on 30 October 2017 to shareholders on the register at 13 October 2017. The ex-dividend date will be 12 October 2017.

8. Board change. Liz Peace stepped down as a non-executive director at the AGM on 4 May 2017. Tracey Killen joined the Board as a non-executive director with effect from 5 May 2017.

9. Principal risks and uncertainties.

The Group has a clear and established risk framework in place for managing its risks. The framework is designed and operated to identify, control and mitigate any threat to the Group achieving its goals. The framework and the risks including details of the mitigations taken to manage them are set out more fully in the risk review in the Group's 2016 annual report and have not changed since that time.

A summary of the principal risks and uncertainties that the directors consider may have a material impact on the Group's performance are:

- Win in Targeted Markets: The markets in which the Group operates are affected to varying degrees by global and UK economic conditions which could potentially impact our longer-term strategy. Specifically, changes in the general economy or housing sector could reduce the number or profitability of opportunities. Fewer opportunities may lead to greater competition, increasing the likelihood of the Group taking on a contract outside of its core competencies or with too high a risk profile.
- Develop and Retain Talented People: The Group undertakes high profile projects and operates in sectors that are technically complex and require innovative solutions. We recognise that talented, motivated people improve our performance and reputation, and that attracting and retaining them is key to our planned growth. Voluntary staff turnover rates, while falling, still need to be reduced further.
- Maximise efficiency of resources: Contract terms need to reflect risks arising from the nature and duration of the works. Projects must be properly resourced to ensure successful delivery for clients. Mispricing a contract, failure to properly manage change on a contract or poor project delivery could all erode profit margins, impact working capital and reduce repeat business and client referrals.
- Disciplined use of capital: The long-term success of the business depends not only on disciplined use of capital within the Group, but also on the liquidity of clients, partners and suppliers, which could be affected by overtrading in an increasingly uncertain market.
- Pursue innovation: Innovation drives quality, efficiency and competitive advantage. Continued developments in technology give us opportunities to improve our delivery and service. Business continuity depends on secure and resilient IT systems and the persistent threat of cyber-risks continues.

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 2017

	Notes	**Six months to 30 June 2017 (unaudited) £m**	Six months to 30 June 2016 (unaudited) £m	Year ended 31 Dec 2016 (audited) £m
Revenue		**1,307.3**	1,148.1	2,561.6
Cost of sales		**(1,177.5)**	(1,045.3)	(2,317.9)
Gross profit		**129.8**	102.8	243.7
Administrative expenses		**(106.9)**	(88.5)	(202.3)
Share of net profit of joint ventures		**2.0**	3.9	7.4
Operating profit before amortisation of intangible assets		**24.9**	18.2	48.8
Amortisation of intangible assets		**(0.6)**	(0.7)	(1.4)
Operating profit		**24.3**	17.5	47.4
Finance income		**0.8**	0.5	1.3
Finance costs		**(2.0)**	(2.6)	(4.8)
Profit before tax		**23.1**	15.4	43.9
Tax	1	**(4.4)**	(2.9)	(7.1)
Profit for the period		**18.7**	12.5	36.8
Attributable to:				
Owners of the Company		**18.7**	12.5	36.8
Earnings per share				
Basic	4	**42.5p**	**28.5p**	83.8p

Diluted	4	**41.0p**	**28.0p**	81.4p

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 2017

	Six months to 30 June 2017 (unaudited) £m	Six months to 30 June 2016 (unaudited) £m	Year ended 31 Dec 2016 (audited) £m
Profit for the period	**18.7**	12.5	36.8
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain arising on retirement benefit obligation	**-**	-	0.7
Deferred tax on retirement benefit obligation	**-**	-	(0.1)
	-	-	0.6
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operation	**(0.3)**	(0.2)	0.6
Gains arising during the period on cash flow hedges	**0.4**	0.7	0.8
Reclassification from cash flow hedges to the income statement	**(0.7)**	-	-
Deferred tax relating to items that may be reclassified	**-**	-	(0.2)
	(0.6)	0.5	1.2
Other comprehensive (expense)/income	**(0.6)**	0.5	1.8
Total comprehensive income	**18.1**	13.0	38.6
Attributable to:			
Owners of the Company	**18.1**	13.0	38.6

Condensed consolidated balance sheet
At 30 June 2017

	Notes	30 June 2017 (unaudited) £m	30 June 2016 (unaudited) £m	31 Dec 2016 (audited) £m
Assets				
Goodwill and other intangible assets		**216.4**	216.8	217.0
Property, plant and equipment		**15.5**	19.8	16.6
Investment property		**6.3**	7.4	6.6
Investments in joint ventures		**63.8**	48.7	56.9
Shared equity loan receivables	5	**16.9**	19.6	18.4
Retirement benefit asset		**2.6**	1.7	2.6
Non-current assets		**321.5**	314.0	318.1
Inventories		**270.9**	256.7	213.9
Trade and other receivables	6	**432.1**	382.5	332.8
Cash and cash equivalents	7	**112.3**	90.1	228.5
Current assets		**815.3**	729.3	775.2
Total assets		**1,136.8**	1,043.3	1,093.3
Liabilities				
Trade and other payables	8	**(793.5)**	(679.8)	(748.3)
Current tax liabilities		**(5.0)**	(5.6)	(7.7)
Finance lease liabilities		**(0.5)**	(1.4)	(0.5)
Borrowings	7	**(15.2)**	(18.7)	(4.8)
Current liabilities		**(814.2)**	(705.5)	(761.3)
Net current assets		**1.1**	23.8	13.9
Trade and other payables		**(1.7)**	(17.1)	(8.6)
Finance lease liabilities		**(0.4)**	(1.4)	(0.7)
Borrowings	7	**-**	(35.0)	(15.0)
Deferred tax liabilities		**(12.5)**	(12.6)	(11.7)
Provisions		**(21.1)**	(18.0)	(18.8)
Non-current liabilities		**(35.7)**	(84.1)	(54.8)
Total liabilities		**(849.9)**	(789.6)	(816.1)
Net assets		**286.9**	253.7	277.2
Equity				
Share capital		**2.2**	2.2	2.2
Share premium account		**33.8**	33.4	33.7
Other reserves		**(0.4)**	(0.5)	0.2
Retained earnings		**251.3**	218.6	241.1
Equity attributable to owners of the Company		**286.9**	253.7	277.2
Total equity		**286.9**	253.7	277.2

Condensed consolidated cash flow statement

For the six months ended 30 June 2017

	Notes	**Six months to 30 June 2017 (unaudited) £m**	Six months to 30 June 2016 (unaudited) £m	Year ended 31 Dec 2016 (audited) £m
Operating activities				
Operating profit		**24.3**	17.5	47.4
Adjusted for:				
Amortisation of intangible assets		**0.6**	0.7	1.4
Share of net profit of equity accounted joint ventures		**(2.0)**	(3.9)	(7.4)
Depreciation		**2.5**	2.6	5.5
Share option expense		**2.0**	1.1	4.6
Gain on disposal of property, plant and equipment		**(0.1)**	-	(0.2)
Movement in fair value of shared equity loan receivables		**(0.3)**	(0.7)	(0.6)
Additional pension contributions		**-**	(0.3)	(0.4)
Disposals of investment properties		**0.3**	1.4	2.2
Repayment of shared equity loan receivables		**1.8**	1.4	2.5
Increase in provisions		**2.3**	1.0	1.8
Operating cash inflow before movements in working capital		**31.4**	20.8	56.8
(Increase)/decrease in inventories		**(57.0)**	(10.0)	32.8
(Increase)/decrease in receivables		**(98.9)**	(28.9)	22.6
Increase in payables		**39.1**	4.3	69.8
Movements in working capital		**(116.8)**	(34.6)	125.2
Cash (outflow)/inflow from operations		**(85.4)**	(13.8)	182.0
Income taxes paid		**(6.3)**	(0.1)	(3.3)
Net cash (outflow)/inflow from operating activities		**(91.7)**	(13.9)	178.7
Investing activities				
Interest received		**0.8**	0.5	1.3
Dividend from joint ventures		**-**	-	1.2
Proceeds on disposal of property, plant and equipment		**0.1**	0.3	3.6
Purchases of property, plant and equipment		**(1.4)**	(1.8)	(4.7)
Purchases of intangible fixed assets		**-**	(0.2)	(1.1)
Net (increase)/decrease in loans with joint ventures		**(4.9)**	5.7	(0.4)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**-**	(0.2)	(7.7)
Net cash (outflow)/inflow from investing activities		**(5.4)**	4.3	(7.8)
Financing activities				
Interest paid		**(3.7)**	(2.1)	(3.1)
Dividends paid	3	**(9.7)**	(7.5)	(13.2)
Repayments of obligations under finance leases		**(0.4)**	(0.6)	(2.2)
Repayment of borrowings	7	**(4.6)**	(4.1)	(38.0)
Proceeds on issue of share capital		**0.1**	1.4	1.7
Payments by the employee benefit trust to acquire shares in the Company		**(1.0)**	(3.1)	(3.3)
Proceeds on exercise of share options		**0.2**	-	-
Net cash outflow from financing activities		**(19.1)**	(16.0)	(58.1)
Net (decrease)/increase in cash and cash equivalents		**(116.2)**	(25.6)	112.8
Cash and cash equivalents at the beginning of the period		**228.5**	115.7	115.7
Cash and cash equivalents at the end of the period	7	**112.3**	90.1	228.5

Condensed consolidated statement of changes in equity
For the six months ended 30 June 2017

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2017	2.2	33.7	0.2	241.1	277.2
Total comprehensive income	-	-	(0.6)	18.7	18.1
Share option expense	-	-	-	2.0	2.0
Issue of shares at a premium	-	0.1	-	-	0.1
Exercise of share options and vesting of share awards	-	-	-	(0.8)	(0.8)
Dividends paid	-	-	-	(9.7)	(9.7)
30 June 2017 (unaudited)	**2.2**	**33.8**	**(0.4)**	**251.3**	**286.9**

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2016	2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0
Total comprehensive income	-	-	0.5	12.5	13.0	-	13.0
Share option expense	-	-	-	1.1	1.1	-	1.1

	Share capital	Share premium account	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Issue of shares at a premium	-	1.4	-	-	1.4	-	1.4
Purchase of shares in the Company by the employee benefit trust	-	-	-	(3.1)	(3.1)	-	(3.1)
Purchase of additional stake in subsidiary undertaking	-	-	-	(0.9)	(0.9)	0.7	(0.2)
Dividends paid	-	-	-	(7.5)	(7.5)	-	(7.5)
30 June 2016 (unaudited)	2.2	33.4	(0.5)	218.6	253.7	-	253.7

	Share capital	Share premium account	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
1 January 2016	2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0
Total comprehensive income	-	-	1.2	37.4	38.6	-	38.6
Share option expense	-	-	-	4.6	4.6	-	4.6
Issue of shares at a premium	-	1.7	-	-	1.7	-	1.7
Purchase of shares in the Company by the employee benefit trust	-	-	-	(3.3)	(3.3)	-	(3.3)
Purchase of additional stake in subsidiary undertaking	-	-	-	(0.9)	(0.9)	0.7	(0.2)
Dividends paid	-	-	-	(13.2)	(13.2)	-	(13.2)
31 December 2016 (audited)	2.2	33.7	0.2	241.1	277.2	-	277.2

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (30 June 2016: £0.6m, 31 December 2016: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.3m) (30 June 2016: £0.1m, 31 December 2016: nil) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, whilst any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.7m) (30 June 2016: (£1.2m), 31 December 2016: (£0.4m)) 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 2017 was 619,535 (30 June 2016: 760,133, 31 December 2016: 759,098) with a cost of £4.7m (30 June 2016: £6.6m, 31 December 2016: £5.8m).

Notes to the consolidated financial statements
For the six months ended 30 June 2017

1 Basis of preparation

General information

The financial information for the year ended 31 December 2016 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 2017 and 2016 and for the six months ended 30 June 2017 and 2016 are therefore unaudited.

Basis of preparation

The annual financial statements of Morgan Sindall Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements included in this half year report were prepared in accordance with IAS 34 'Interim Financial Reporting'. While the financial information included in this half year report was prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS'), this half year report does not itself contain sufficient information to comply with IFRS.

Going concern

As at 30 June 2017, the Group had net cash of £97.1m and total undrawn committed banking facilities of £180m which are in place for greater than one year. The directors have reviewed the Group's forecasts and projections and have modelled certain downside scenarios which show that the Group will have a sufficient level of headroom within facility limits and covenants for the foreseeable future. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

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 2016.

Tax

A tax charge of £4.4m is shown for the six month period (six months to 30 June 2016: charge of £2.9m, year ended 31 December 2016: charge of £7.1m). This tax charge is recognised based upon the best estimate of the average effective income tax rate on profit before tax for the full financial year.

Seasonality

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

2 Business segments

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

- Construction & Infrastructure: provides specialist construction and infrastructure design and build services on projects, frameworks and strategic alliances of all sizes. Alongside its tunnelling design capability is BakerHicks which offers multidisciplinary design and engineering consultancy services;
- Fit Out: Overbury specialises in fit out and refurbishment projects, operating through multiple procurement routes. Morgan Lovell specialises in office design and build, providing an end-to-end service which includes workplace consulting and furniture solutions;
- Property Services: provides strategic asset management and responsive, planned and cyclical maintenance to social housing providers, facilities management services to public buildings and claims and reinstatement repairs for insurance providers;
- Partnership Housing: specialises in the delivery of mixed-tenure regeneration partnership housing schemes, design and build of new homes and planned maintenance and refurbishment;
- Urban Regeneration: works with landowners and public sector partners to unlock value from under-developed assets and bring about sustainable regeneration and urban renewal through the delivery of new mixed-use developments; and
- Investments: creates long-term strategic partnerships to realise the potential of under-utilised assets of both public and private sector clients, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions.

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

Six months to 30 June 2017

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

Six months to 30 June 2016

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	596.9	294.4	26.6	180.9	39.9	9.4	-	-	1,148.1
Inter-segment revenue	15.1	-	-	2.1	-	-	-	(17.2)	-
Total revenue	612.0	294.4	26.6	183.0	39.9	9.4	-	(17.2)	1,148.1
Operating profit/(loss) before amortisation of intangible assets	3.2	11.5	0.1	4.6	4.6	(0.8)	(5.0)	-	18.2
Amortisation of intangible assets	-	-	-	(0.3)	(0.4)	-	-	-	(0.7)
Operating profit/(loss)	3.2	11.5	0.1	4.3	4.2	(0.8)	(5.0)	-	17.5

Year ended 31 December 2016

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	1,272.0	633.6	54.8	430.1	156.5	14.6	-	-	2,561.6
Inter-segment revenue	49.5	-	-	2.9	-	-	-	(52.4)	-
Total revenue	1,321.5	633.6	54.8	433.0	156.5	14.6	-	(52.4)	2,561.6
Operating profit/(loss) before amortisation of intangible assets	8.9	27.5	0.7	13.4	13.4	(2.0)	(13.1)	-	48.8
Amortisation of intangible assets	-	-	-	(0.6)	(0.8)	-	-	-	(1.4)
Operating profit/(loss)	8.9	27.5	0.7	12.8	12.6	(2.0)	(13.1)	-	47.4

During the period ended 30 June 2017, the period ended 30 June 2016 and the year ended 31 December 2016, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 Dividends

Amounts recognised as distributions to equity holders in the year:

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year ended 31 Dec 2016 £m
Final dividend for the year ended 31 December 2016 of 22.0p per share	**9.7**	-	-
Final dividend for the year ended 31 December 2015 of 17.0p per share	**-**	7.5	7.5
Interim dividend for the year ended 31 December 2016 of 13.0p per share	**-**	-	5.7
	9.7	7.5	13.2

The proposed interim dividend of 16.0p per share was approved by the Board on 7 August 2017 and will be paid on 30 October 2017 to shareholders on the register on 13 October 2017. The ex-dividend date is 12 October 2017.

4 Earnings per share

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year ended 31 Dec 2016 £m
Profit attributable to the owners of the Company	**18.7**	12.5	36.8
Adjustments:			
Intangible amortisation net of tax	**0.5**	0.6	1.1
Deferred tax credit arising due to change in UK corporation tax rates	**-**	-	(0.7)
Adjusted earnings	**19.2**	13.1	37.2

Basic weighted average ordinary shares (m)	**44.0**	43.9	43.9
Dilutive effect of share options and conditional shares not vested (m)	**1.6**	0.7	1.3
Diluted weighted average ordinary shares (m)	**45.6**	44.6	45.2

Basic earnings per share	**42.5p**	28.5p	83.8p
Diluted earnings per share	**41.0p**	28.0p	81.4p
Adjusted earnings per share	**43.6p**	29.8p	84.7p
Diluted adjusted earnings per share	**42.1p**	29.4p	82.3p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the period that the options were outstanding. The weighted average share price for the period was £10.38 (30 June 2016: £7.67, 31 December 2016: £7.33).

A total of 2.3m share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 31 December 2017 (30 June 2016: 2.2m, 31 December 2016: 2.1m).

5 Shared equity loan receivables

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
1 January	**18.4**	20.3	20.3
Net change in fair value recognised in the income statement	**0.3**	0.7	0.6
Repayments by borrowers	**(1.8)**	(1.4)	(2.5)
End of period	**16.9**	19.6	18.4

Basis of valuation and assumptions made

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

	30 June 2017	30 June 2016	31 Dec 2016
Assumption			
Period over which shared equity loan receivables are discounted:			
First Buy and Home Buy schemes	**20 years**	20 years	20 years
Other schemes	**9 years**	9 years	9 years
Nominal discount rate	**5.4%**	6.6%	5.3%
Weighted average nominal annual property price increase	**2.3%**	2.8%	2.3%
Forecast default rate	**2.0%**	2.0%	2.0%
Number of loans under the shared equity scheme outstanding at the period end	**543**	630	595

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

Sensitivity analysis

At 30 June 2017, if the nominal discount rate had been 100bps higher at 6.4% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.3m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 30 June 2017, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) are discounted had been 10 years and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.4m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

6 Trade and other receivables

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Amounts due from construction contract customers	**200.7**	204.6	147.9
Trade receivables	**198.9**	152.6	163.9
Amounts owed by joint ventures	**1.2**	0.7	1.5
Prepayments	**19.6**	11.7	10.6
Other receivables	**11.7**	12.9	8.9
	432.1	382.5	332.8

7 Net cash

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Cash and cash equivalents	**112.3**	90.1	228.5
Non-recourse project financing due in less than one year	**(15.2)**	(18.7)	(4.8)
Borrowings due between two and five years	**-**	(35.0)	(15.0)
Net cash	**97.1**	36.4	208.7

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

8 Trade and other payables

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Trade payables	**200.1**	144.0	144.6
Amounts due to construction contract customers	**60.8**	69.3	52.0
Amounts owed to joint ventures	**0.2**	0.2	0.2
Other tax and social security	**18.9**	34.9	33.2
Accrued expenses	**472.6**	394.6	482.0
Deferred income	**0.8**	5.7	-
Other payables	**40.1**	31.1	36.3
	793.5	679.8	748.3

Current and non-current other payables include £7.5m and £nil respectively (30 June 2016: £7.0m and £7.2m, 31 December 2016: £7.5m and £nil) related to the discounted deferred consideration due on the acquisition of an additional interest in Waterside Places (General Partner) Limited.

9 Contingent liabilities

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

10 Subsequent events

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

The directors confirm that to the best of their knowledge:

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

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

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

By order of the Board

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

8 August 2017

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