

NORTH MIDLAND CONSTRUCTION PLC

UNAUDITED CONDENSED GROUP HALF YEARLY FINANCIAL STATEMENTS

25 August 2011

North Midland Construction PLC (“the Company”) the UK provider of civil engineering, building, mechanical and electrical services to public and private organisations, announces interim results for the six months ended 30 June 2011.

Highlights from the results and the Chairman’s Statement:-

	Six Months Ended 30 June 2011 £'000	Six Months Ended 30 June 2010 £'000
Revenue	91,314	77,897
Profit before Tax	1,312	2,037
Total Comprehensive Income	1,283	1,467
Earnings per Share	12.52p	14.54p
Proposed Dividends	2.50p	2.50p

- Revenue increased by 17.2% compared with previous year.
- Significant loss in North Midland Building Limited.
- All other divisions are profitable.
- The reduction in fine by the Office of Fair Trading (£1,203,000) has been taken to operating profit as an exceptional item and is not subject to taxation.
- Interim dividend maintained at 2.50p.

For further information:-

Robert Moyle, Chairman - 01623 518812
North Midland Construction PLC

CHAIRMAN'S STATEMENT

The result for the half-year is a disappointment with profit before tax reduced by 35.6% to £1.31 million on a revenue increased by 17.2% at £91.30 million over the comparable period last year. This reversal is due to a loss generated within North Midland Building Limited of £1.94 million. The Nomenca subsidiary and all the other divisions traded profitably during the period. An exceptional item profit of £1.20 million is included in the result. This has emanated from the successful appeal to and subsequent reduction in the OFT fine.

The Building subsidiary has delivered a significant loss of £1.94 million on revenue reduced by 3% at £11 million. Its major contract is in serious delay and will result in a claim for losses incurred. Unforeseen operational problems on two further contracts have resulted in losses of £0.91 million. Both projects have now been completed. In accordance with best practice the predicted outturn losses on these three contracts have been incorporated into the half-year result. Market conditions remain extremely difficult with very competitive margins. The workload for the remainder of the year currently is £7 million. Reorganisation of the subsidiary is currently underway and this will result in significant overhead reduction and improved performance.

Conversely, Nomenca Limited, the Mechanical & Electrical subsidiary, has benefited from the escalation in expenditure of the water companies under the AMP5 programme. Revenue has increased by 63.0% to £29.31 million. Profitability, also, increased by 95.7% to £0.46 million. The forecast for this year will be achieved and prospects for the ensuing years are encouraging. Current workload for the second half of the year stands at £27 million.

Revenue within the Civil Engineering division remained static at £22.9 million, with profitability declining by 4.1% to £0.76 million. Both the Civil Engineering division and Nomenca Limited are beneficiaries of the performance of NMC/Nomenca, the sub division formed to deliver the AMP5 programme for Severn Trent Water. NMC/Nomenca performed well and will deliver its forecast for the full year.

In spite of the public sector expenditure cuts, the Highways division increased both revenue and profit by 21.7% and 78.7% respectively. Geographical consolidation has continued and the division has a strong presence with several public sector frameworks. Year end forecasts will be achieved and the current workload for the second half of the year is £10 million.

Revenue in the Utilities Division increased by 5.5% to £20.3 million, but profit declined by 33.7% to £0.60 million due to margin pressure on the existing frameworks. Price increases in both materials and more significantly fuel have been considerable and are non-recoverable on these contracts.

Virgin Media have reviewed their supply chain arrangements and the division was unsuccessful in securing the revised contract. Replacement frameworks are actively being pursued and with the major South Yorkshire Digital Region contract finishing within this financial year, replacement revenue is a priority.

There was a net cash outflow during the period, particularly due to high levels of work in progress within the Utilities division. However, a positive cash balance was maintained at the end of the period.

As the exceptional item is not subject to tax, it is the Board's intention to maintain the return to shareholders. The payment of an interim dividend of 2.5p per share, which will be paid on 30 September 2011 to the shareholders on the register on 9 September 2011, is recommended by the Board.

Robert Moyle
Chairman
North Midland Construction PLC

UNAUDITED CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

The unaudited condensed Group results for the half year ended 30 June 2011 are shown below together with the unaudited Group results for the half year ended 30 June 2010 and the audited Group results for the year ended 31 December 2010.

	<u>Six Months Ended 30 June</u>		<u>Year Ended</u>
	<u>2011</u>	<u>2010</u>	<u>31 December</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Revenue	91,314	77,897	164,523
Other operating income	54	69	90
	<u>91,368</u>	<u>77,966</u>	<u>164,613</u>
Raw material and consumables	(16,393)	(14,381)	(27,162)
Other external charges	(52,202)	(40,852)	(92,355)
Employee costs	(19,389)	(18,497)	(36,954)
Depreciation of property, plant & equipment	(818)	(792)	(1,647)
Other operating charges	(1,235)	(1,371)	(2,683)
Operating profit	<u>1,331</u>	<u>2,073</u>	<u>3,812</u>
Analysed as:-			
Operating profit before exceptional item	128	2,073	3,812
Exceptional item (Note 3)	1,203	-	-
Operating profit	<u>1,331</u>	<u>2,073</u>	<u>3,812</u>
Interest received	18	0	9
Finance costs	(37)	(36)	(108)
Profit before tax	<u>1,312</u>	<u>2,037</u>	<u>3,713</u>
Tax (Note 5)	(29)	(570)	(1,064)
Profit for the period	<u>1,283</u>	<u>1,467</u>	<u>2,649</u>
Other comprehensive income	-	-	-
Total comprehensive income for the period	<u><u>1,283</u></u>	<u><u>1,467</u></u>	<u><u>2,649</u></u>
Attributed to:-			
Non-controlling interest	56	42	131
Equity holders of the parent	<u>1,227</u>	<u>1,425</u>	<u>2,518</u>
	<u><u>1,283</u></u>	<u><u>1,467</u></u>	<u><u>2,649</u></u>
Earnings per share basic and diluted (Note 4)	12.52p	14.54p	25.69p
Dividend per share (Note 6)	6.00p	6.00p	8.50p

UNAUDITED CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	<u>Share</u>	<u>Capital</u>	<u>Retained</u>	<u>Non-</u>	<u>Total</u>
	<u>Capital</u>	<u>Redemption</u>	<u>Earnings</u>	<u>Controlling</u>	
	<u>£'000</u>	<u>Reserve</u>	<u>£'000</u>	<u>Interest</u>	<u>£'000</u>
At 1 January 2010	980	20	17,403	720	19,123
Comprehensive income for the period	-	-	1,425	42	1,467
Dividends paid	-	-	(588)	(82)	(670)
At 30 June 2010	<u>980</u>	<u>20</u>	<u>18,240</u>	<u>680</u>	<u>19,920</u>
Comprehensive income for the period	-	-	1,093	89	1,182
Dividends paid	-	-	(245)	(21)	(266)
Acquisition of non-controlling interest	-	-	(230)	(249)	(479)
At 1 January 2011	<u>980</u>	<u>20</u>	<u>18,858</u>	<u>499</u>	<u>20,357</u>
Comprehensive income for the period	-	-	1,227	56	1,283
Dividends paid	-	-	(588)	(30)	(618)
At 30 June 2011	<u><u>980</u></u>	<u><u>20</u></u>	<u><u>19,497</u></u>	<u><u>525</u></u>	<u><u>21,022</u></u>

UNAUDITED CONDENSED GROUP BALANCE SHEET

The unaudited condensed Group Balance Sheets at 30 June 2011 and 30 June 2010 are shown below together with the audited Group Balance Sheet at 31 December 2010.

	<u>30 June</u>		<u>31 December</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
	£'000	£'000	£'000
Assets			
Non-Current Assets			
Property, plant and equipment	10,872	10,182	10,234
Goodwill	1,267	1,267	1,267
	<u>12,139</u>	<u>11,449</u>	<u>11,501</u>
Current Assets			
Inventories	1,820	1,733	1,939
Construction contracts	13,921	10,519	12,293
Trade and other receivables	35,347	26,810	28,735
Cash and cash equivalents	1,122	564	8,911
	<u>52,210</u>	<u>39,626</u>	<u>51,878</u>
Total Assets	<u>64,349</u>	<u>51,075</u>	<u>63,379</u>
Equity & Liabilities			
Capital & Reserves attributable to equity holders of the Parent			
Share capital	980	980	980
Capital redemption reserve	20	20	20
Retained earnings	19,497	18,240	18,858
	<u>20,497</u>	<u>19,240</u>	<u>19,858</u>
Non-controlling interest	525	680	499
Total Equity	<u>21,022</u>	<u>19,920</u>	<u>20,357</u>
Liabilities			
Non-current Liabilities			
Obligation under finance leases			
– due after one year	1,083	474	858
Provisions	614	561	560
Deferred tax	15	38	15
	<u>1,712</u>	<u>1,073</u>	<u>1,433</u>
Current Liabilities			
Trade & other payables	40,770	28,913	39,761
Current income tax payable	25	571	1,088
Obligations under finance leases			
- due within one year	820	598	740
	<u>41,615</u>	<u>30,082</u>	<u>41,589</u>
Total Liabilities	<u>43,327</u>	<u>31,155</u>	<u>43,022</u>
Total Equity & Liabilities	<u>64,349</u>	<u>51,075</u>	<u>63,379</u>

UNAUDITED CONDENSED GROUP STATEMENT OF CASH FLOW

The unaudited condensed Group statement of cash flows for the periods ended at 30 June 2011 and 30 June 2010 are shown below together with the audited Group statement of cash flow for the year ended 31 December 2010.

	<u>Six Months Ended 30 June</u>		<u>Year Ended</u>
	<u>2011</u>	<u>2010</u>	<u>31 December</u>
	£'000	£'000	2010 £'000
Cash flows from operating activities			
Operating profit	1,331	2,066	3,812
Adjustments for:			
Depreciation of property, plant and equipment	818	792	1,647
(Gain) on disposal of property, plant and equipment	(56)	(58)	(87)
Increase in provisions	54	42	41
Operating cash flows before movements in working capital	2,147	2,842	5,413
Decrease/(increase) in inventories	119	(156)	(362)
(Increase) in construction contracts	(1,628)	(2,089)	(3,863)
(Increase)/decrease in receivables	(6,612)	4,210	2,285
Increase/(decrease) in payables	1,009	(8,027)	2,821
Cash (used in)/generated from operations	(4,965)	(3,220)	6,294
Income Tax paid	(1,092)	(620)	(621)
Interest received	18	7	9
Interest paid	(37)	(36)	(108)
Net cash (used in)/generated from operating activities	(6,076)	(3,869)	5,574
Cash flows from investing activities			
Purchase of property, plant and equipment	(742)	(669)	(634)
Proceeds on disposal of property, plant and equipment	59	65	108
Purchase of non-controlling interest	-	-	(478)
Net cash (used in) investing activities	(683)	(604)	(1,004)
Cash flows from financing activities			
Equity dividend paid	(588)	(588)	(833)
Dividend paid to non-controlling interest	(30)	(82)	(103)
Repayments of obligations under finance leases	(412)	(466)	(896)
Net cash (used in) investing activities	(1,030)	(1,136)	(1,832)
Net (decrease)/increase in cash and cash equivalents	(7,789)	(5,609)	2,738
Cash and cash equivalents at 1 January 2011	8,911	6,173	6,173
Cash and cash equivalents at 30 June 2011	1,122	564	8,911

1. Basis of preparation

The unaudited condensed consolidated half-yearly financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, and have been prepared on the basis of International Financial Reporting Standards (IFRS's) as adopted by the European Union that are effective for the full year ending 31 December 2010. They do not include all of the information required for full annual financial statements. These condensed consolidated half-yearly financial statements have not been subject to audit or review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 by the company's auditor, do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2010. The comparative figures for the year ended 31 December 2010 are not the Group's statutory accounts for that financial year. Those accounts have been reported upon by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 435 and 498 (2) or (3) respectively of the Companies Act 2006.

The accounting policies adopted in the preparation of the condensed consolidated half-yearly financial statements to 30 June 2011 are consistent with the policies applied by the Group in its consolidated financial statements as at, and for the year ended 31 December 2010. The Group has considered amendments to existing standards and interpretations that are effective for the year ending 31 December 2011 and is of the view that they have no impact on the half-yearly accounts.

The preparation of consolidated half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed half-yearly financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2010.

2. Segment reporting

The business segment reporting format reflects the Group's management and internal reporting structure.

Business segments

The Group is comprised of the following business segments:-

- 'PLC' - comprising civil engineering, highways and utilities divisions
- Building - construction of commercial and residential property
- Nomenca - mechanical and electrical engineering products and services

Segment revenue and profit

Six Months Ended 30 June 2011

	Civil Engineering £'000	Highways £'000	Utilities £'000	Building £'000	Nomenca £'000	Total £'000
Revenue						
External sales	<u>22,892</u>	<u>7,799</u>	<u>20,314</u>	<u>10,998</u>	<u>29,311</u>	<u>91,314</u>
Result before corporate expenses	3,404	881	1,614	(1,317)	1,933	6,515
Corporate expenses	<u>(2,641)</u>	<u>(629)</u>	<u>(1,019)</u>	<u>(625)</u>	<u>(1,473)</u>	<u>(6,387)</u>
Operating profit before exceptional item	<u>763</u>	<u>252</u>	<u>595</u>	<u>(1,942)</u>	<u>460</u>	128
Exceptional item (Note 3)						<u>1,203</u>
Operating profit						<u>1,331</u>
Net finance costs						<u>(19)</u>
Profit before tax						<u>1,312</u>
Tax						<u>(29)</u>
Total comprehensive income for the period						<u>1,283</u>

Six Months Ended 30 June 2010

	Civil Engineering £'000	Highways £'000	Utilities £'000	Building £'000	Nomenca £'000	Total £'000
Revenue						
External sales	<u>22,913</u>	<u>6,410</u>	<u>19,259</u>	<u>11,336</u>	<u>17,979</u>	<u>77,897</u>
Result before corporate expenses	1,830	453	1,405	775	1,874	6,337
Corporate expenses	<u>(1,034)</u>	<u>(312)</u>	<u>(508)</u>	<u>(771)</u>	<u>(1,639)</u>	<u>(4,264)</u>
Operating profit	<u>796</u>	<u>141</u>	<u>897</u>	<u>4</u>	<u>235</u>	<u>2,073</u>
Net finance costs						<u>(36)</u>
Profit before tax						<u>2,037</u>
Tax						<u>(570)</u>
Total comprehensive income for the period						<u>1,467</u>

Segment assets

	30 June	
	2011 £'000	2010 £'000
Civil engineering	20,890	17,123
Highways	7,117	4,791
Utilities	<u>18,538</u>	<u>14,392</u>
	46,545	36,306
Building	8,132	4,991
Nomenca	<u>9,672</u>	<u>9,778</u>
Total segment assets and consolidated total assets	<u>64,349</u>	<u>51,075</u>

For the purpose of monitoring segment performance and allocating resources between segments, the Group's Chief Executive monitors the tangible and financial assets attributable to each segment. Goodwill has been allocated to reportable segments to which it relates. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Other segment information

	Depreciation and amortisation 30 June		Additions to non-current assets 30 June	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Civil engineering	354	358	652	595
Highways	121	100	222	167
Utilities	314	302	579	500
Building	15	18	-	-
Nomenca	<u>14</u>	<u>14</u>	<u>6</u>	<u>5</u>
	<u>818</u>	<u>792</u>	<u>1,459</u>	<u>1,267</u>

There were no impairment losses recognised in respect of property, plant and equipment or goodwill.

All of the above relates to continuing operations and arose in the United Kingdom.

Information about major customer

Revenues of approximately £26,557,000 (2010 : £24,155,000) were derived from a single external customer. These revenues are attributable to the Civil Engineering and Nomenca segments.

3. Exceptional item

The exceptional item represents the release of the provision previously made in respect of the fine levied by the Office of Fair Trading following the successful appeal where the fine levied was reduced by £1,203,000.

4. Earnings per share

The basic and diluted earnings per share are the same and have been calculated on profits of £1,227,000 (2010 : £1,425,000) and the weighted average number of shares in issue of 9,800,000 (2010 : 9,800,000) shares in issue.

5. Taxation

In respect of the six months ended 30 June 2011, corporation tax has been provided at 27% (2010 : 28%) of the profit without deferment. The low taxation charge results from the exceptional item not being subject to tax.

6. Dividends

Amounts recognised as distributions to equity holders in the half year:-

	Six Months to June	
	2011	2010
	£'000	£'000
Final dividend for the year ended 31 December 2010 of 6p (2009 : 6p) per share	<u>588</u>	<u>588</u>

The Directors propose an interim dividend of 2.5p per share (2010 : 2.5p per share), total £245,000 (2010 : £245,000), which will be paid on 30 September 2011 to the shareholders on the register on 9 September 2011.

7. Goodwill

An impairment review of the goodwill figure has been carried out in the light of past performance and forecast future performance. Based on this review, the directors consider that no provision for impairment is necessary.

8. Related parties and joint operations

The Group's related parties are key management personnel who are the executive directors, non-executive directors and divisional managers.

9. Contingent liabilities

Euler Hermes Guarantee plc, Lloyds TSB and HCC International Insurance Co. Ltd have given Performance Bonds to a value of £4,121,745 (2010 : £4,005,974) on the Group's behalf. These bonds have been made with recourse to the Group.

10. Seasonality

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

11. Principal risks and uncertainties

The Board consider the principal risks and uncertainties relating to the Group for the next six months to be the same as detailed in the last Annual Report and Accounts to 31 December 2010.

12. Responsibility Statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

A copy of this circular will be sent to all shareholders on 25 August 2011 and copies will be available from the registered office, Nunn Close, The County Estate, Huthwaite, Sutton-in-Ashfield, Nottinghamshire, NG17 2HW, for 14 days from today's date. This report will also be available on the Group's website (www.northmid.co.uk).

R Moyle
Chairman

M S Garratt
Finance Director

25 August 2011