

**Morson Group PLC**  
**(‘Morson’ or ‘the Group’)**

**Preliminary results for the year ended 31 December 2009**

Morson (AIM: MRN.L), the UK’s leading provider of technical engineering personnel and project design solutions, supplying over 9,000 highly skilled white collar personnel to the aerospace and defence, nuclear and power, rail and other technical industries, is pleased to announce its preliminary results for the year ended 31 December 2009.

**Highlights**

- Solid trading performance across the Group:
  - Group revenues up 1.2% to £436.6 million (2008: £431.4 million);
  - Group net fee income (gross profit) down 5.3% to £34.8 million (2008: £36.7 million);
  - adjusted profit before tax down 8.0% to £10.8 million (2008: £11.7 million)<sup>†</sup>;
  - profit before tax up 22.5% to £9.7 million (2008: £7.9 million);
  - profit after tax up 24.4% to £7.2 million (2008: £5.8 million);
  - adjusted basic earnings per share down 10.5% to 18.48 pence (2008: 20.64 pence)<sup>†</sup>;and
  - basic earnings per share up 24.5% to 16.07 pence (2008: 12.91 pence).
- Continued resilience and consistency across the Group.
- Current trading in line with Directors’ expectations.
- Proposed final dividend of 4.0 pence per share (2008: 4.0 pence) bringing the total dividend for the year to 6.0 pence (2008: 6.0 pence).

<sup>†</sup> Before amortisation of £1,222,000 (2008: £972,000), exceptional head office relocation cost of £434,000 (2008: £1,280,000) and fair value gain regarding the derivative financial instrument £530,000 (2008: fair value loss £1,593,000).

Gerry Mason, Non Executive Chairman, said:

“I am pleased to report that we achieved solid results in challenging market conditions. The effects of the recession on the UK economy have been widespread but for Morson Group PLC have been tempered by several factors including the relative greater resilience of the sectors in which we operate, the impact of specific project demands and through having a strong business model with significant bias towards temporary contractor resource.”

For further information please contact:

Morson Group plc Ged Mason, CEO Paul Gilmour, Financial Director	0161 707 1516
Brewin Dolphin Investment Banking (Nomad) Matt Davis, Adam Rudd	0845 213 4730
Buchanan Communications Diane Stewart, James Strong, Carrie Clement	0207 466 5000

## CHAIRMAN'S STATEMENT

### Introduction

The worldwide recession and its impact has seen the general UK economy suffer notably over the last two years with unprecedented liquidity issues and it is against that backdrop that I am pleased to report that we achieved solid results in challenging market conditions. The effects of this market decline on Morson Group PLC ("The Group" or "Morson") have been tempered by several factors including the relative greater resilience of the sectors in which we operate, the impact of specific project demands and through having a strong business model with significant bias towards temporary contractor resource, as opposed to being reliant on permanent fee income.

Looking back on 2009, whilst we experienced a strong first quarter, margins and contractor numbers declined during the remainder of the year. However, Morson Projects continued to trade strongly throughout the year, producing robust results and developing further exciting opportunities within power, nuclear and aerospace.

Overall, the fundamentals of our business remain sound and our business model has adapted well to current conditions and Morson remains significantly profitable and cash generative. Whilst at the adjusted profit before tax level Group results are down by 8.0% for the year, to £10.8 million, we consider this result, within the current environment, to be a good outcome, retaining our position as a leading performer in our sector.

It is also pleasing to report that despite these challenging and competitive times we have maintained a reasonable level of contract wins during the period and secured extensions and some renewals to existing contracts. These include contracts with Thales, London Underground and Airbus. Our current order book is strong and importantly the pipeline of opportunities remains promising. However, we remain cautious about 2010 as we await clearer signals that the recessionary trading environment is coming to an end.

### Results

Key financial highlights include:

- Group revenues up 1.2% to £436.6 million (2008: £431.4 million);
- Group net fee income down 5.3% to £34.8 million (2008: £36.7 million);
- adjusted operating profit decreased by 9.0% from £13.5 million to £12.3 million\*;
- operating profit decreased by 5.5% from £11.3 million to £10.7 million;
- adjusted profit before tax down 8.0% to £10.8 million (2008: £11.7 million)<sup>†</sup>;
- profit before tax up 22.5% to £9.7 million (2008: £7.9 million);
- profit after tax up 24.4% to £7.2 million (2008: £5.8 million);
- adjusted basic earnings per share down 10.5% to 18.48 pence (2008: 20.64 pence)<sup>†</sup>;
- basic earnings per share up 24.5% to 16.07 pence (2008: 12.91 pence);
- Group net assets increased from £52.9 million to £57.4 million; and
- proposed final dividend of 4.0 pence per share (2008: 4.0 pence).

*\* Before amortisation of £1,222,000 (2008: £972,000) and exceptional head office relocation cost of £434,000 (2008: £1,280,000).*

*<sup>†</sup> Before amortisation of £1,222,000 (2009: £972,000), exceptional head office relocation cost of £434,000 (2008: £1,280,000) and fair value gain regarding the derivative financial instrument £530,000 (2008: fair value loss £1,593,000).*

A reconciliation of adjusted operating profit and profit before tax to the consolidated income statement is provided within the Business Review.

## Strategy

Looking forward our strategy continues to focus on the provision of engineering-based support services, which utilises our technical engineering resources and human capital expertise, complemented by our professional project management and consultancy skills.

Acknowledging the economic downturn, during 2009 the Board has reviewed the delivery of this strategy and reduced overheads through headcount reductions in certain areas and via one office closure. At the same time this is blended with a balance of investment into new niche areas for future growth, for example within Rail and Information Communication Technology (ICT).

A key part of our strategy is to further develop Morson Projects' differentiating consultancy offering, which provides project engineering and design services through managed outsourced work packages, delivering higher operating margins. We will also continue to develop new business within our Managed Vendor recruitment offering. In particular, we aim to increase our revenue from overseas business, along with further investment into new areas such as Power, Automotive, Highways, Support Services, Utilities and other complementary disciplines.

We are in a stable position due to the quality and visibility of earnings, strong operating cash flow, a solid order book and a robust balance sheet. We have opportunity to grow areas of higher value services and other complementary skilled sectors. The Board remains confident about the current year and beyond and still sees opportunity for the future in diversifying the business, both geographically and by discipline, primarily through organic growth and where appropriate selective acquisitions.

## Dividends

The Board proposes a final dividend of 4.0 pence per share (2008: 4.0 pence) giving a total dividend for the year of 6.0 pence per share (2008: 6.0 pence), maintaining the levels of the previous year. This reflects the confidence the Board has in the Group's financial position and their view that the Group remains well placed to continue to develop and grow. The final dividend, pending approval, will be paid on 28 May 2010 to shareholders on the register at 7 May 2010.

## People

Our staff have yet again continued to apply themselves with energy and passion and I am impressed with everyone's spirit and enthusiasm. We continue to be encouraged by the performance of the Group and the dedication and capability of its employees at all levels and the strong team culture that prevails both across the Group and with our valued customers. These are very important strengths as we engage together in large infrastructure projects and maintenance programmes.

It is a privilege on behalf of the Board to thank all our valued staff, contractors and customers for their continued support. With their loyalty and commitment we have yet again out-performed many of our competitors and maintained our leading edge. Well done also to those who have received their 10 year and 20 year service awards who join many of their long term colleagues in this achievement. This is something that we are very proud of, demonstrating our record of retaining key talent and providing real long term career progression and opportunity.

## Outlook

We believe that general economic conditions will remain very challenging and anticipate further tightening of major companies' spend and further reductions in Government-funded budgets. In addition to this there is the impending General Election which adds to the economic uncertainty.

However, the Board remains confident about the long-term future, particularly in relation to high demands for skilled engineers within the forthcoming nuclear new build and decommissioning activity which we are in a prime position to support.

Our business model is strong and has seen us through many economic cycles. We have excellent visibility of earnings, driven by the requirements of major key UK infrastructure, wider European and International opportunity and a strong order book, coupled with a robust balance sheet.

As in previous economic downturns whilst we have reduced headcount, we have maintained our market presence and continued to make selective new investments. These decisions enable us to build market share and enhance the resilience of the Group so that we are able to benefit when economic conditions improve. The current economic climate is challenging and whilst its upturn is hard to foresee we will once again aim to maintain, develop and grow our market presence while managing our cost base to maximise future opportunities.

Gerry Mason

Non-Executive Chairman

## **BUSINESS REVIEW**

### **Introduction**

Morson Group PLC ("Morson" or "the Group") operates through two main subsidiaries, Morson Human Resources Limited (branded as Morson International) providing specialist engineering and technical personnel and Morson Projects Limited which provides outsourced engineering design. Despite the unprecedented difficult market conditions in the wider UK economy both businesses have performed well, delivering solid results and maintaining our client base and presence across all sectors. The Directors firmly believe that this has resulted in enhanced market share and, importantly, positioned the Group to gain from future opportunity and the emergence of the UK from recession. However the Board still believes that the existing challenges facing Morson's client base will prevail through 2010. The Group is, and remains, the UK's largest provider of engineering and technical human resource solutions.

Nuclear, Aerospace, Rail and Power are the core markets that we operate across, however a wide range of ancillary engineering and design markets also draw on the Group's engineering talent. These other areas which include Telecommunications, Oil and Gas, Marine and Automotive provide good opportunities for growth. Morson takes pride in always seeking to work in partnership with its customers with common goals for efficiency, innovation and technical expertise. This helps us gain knowledge of the needs and aims of our clients, so that we can make planned and beneficial changes and improvements to our services. The Board believes this approach is key in securing and maintaining the excellent long-term relationships we have with our customers, several of which span over 20 years.

The provision of long term contractors supplied by **Morson International** has seen its Net Fee Income (NFI) fall by 8.4% from £30.6m to £28.1m. Of this 40.7% (2008: 42.4%) is converted into operating profit before interest, tax and exceptional head office relocation cost, well ahead of most of our peer group and a key performance indicator for the business.

There has been significant progress made by **Morson Projects** over recent years and the Directors are pleased to see its gross profit increase by 10.2% from £6.1 million to £6.7 million and a 8.4% rise in operating profit before exceptional head office relocation cost from £2.1 million to £2.3 million.

In 2009 the combined conversion ratio of NFI to adjusted operating profit for the Group was 35.4% (2008: 36.8%) reflecting the difficult trading conditions, but still a commendable result.

At the close of the year the move into our new Head Office premises was completed successfully. This has given a tangible boost to the working environment of our staff in Manchester and energised everyone. It gives us capacity to house Morson Projects and Morson International together, to grow the businesses, achieve synergy in working practices and business development methodology and present an enhanced professional entity, better equipped to win new business from our clients.

### **Market Overview**

The UK economic recession has clearly impacted the Group's client base through the year 2009, most particularly in the recruitment business of Morson International. Supply to much of our client base, which includes in certain areas Government spend backed entities, consequently saw reduced volumes. However, whilst discretionary spend and projects were sometimes delayed or re-phased, much activity does centre around maintaining key core assets, for example nuclear and rail infrastructure, affording us continuing income streams. Difficulties in the market and the impact of these on the Group became evident from the second quarter of 2009 and it was not until the end of the year that a degree of stabilisation in our market was apparent. This situation has been felt across the whole recruitment market, for example the REC (Recruitment and Employment Confederation) who produce the monthly "Report On Jobs" indicated that the UK temporary and permanent recruitment markets fell for twelve and seventeen consecutive months respectively during the period up to August 2009. A stable and slightly rising position has been reported from that time. Despite this fall Morson has performed well and consolidated its market leading position, including some notable contract wins, creating opportunity to grow market share.

The Directors believe that there remains an underlying need for engineering talent and expertise, in the UK and overseas, and that the sourcing and delivery of this talent is a core strength of the business. During 2009 the average number of contractors engaged, which is an indicator of activity levels, reduced by 2.2% to circa 9,100 (2008: 9,300). Traditionally, as the economy comes out of recession, the temporary market performs well as businesses engage this flexible labour resource rather than recruiting permanent staff. Looking forward, we believe that as existing and potential client users of engineering skills review the efficacy of their supply chain we are well placed to rationalise, manage or outsource this for them. This is a large market and Morson continues to seek Managed Vendor, Preferred Supplier List, and Recruitment Process Outsourcing accounts. Of particular note in 2009 was a contract win where we were pleased to secure a three year contract with Thales, supplying technical resource to all their UK operations.

## **Sector Review**

### **Morson International: Provision of Temporary and Permanent Recruitment Services**

#### **Aerospace & Defence**

Morson is the UK leader in the provision of technical personnel and design solutions to the aerospace and defence sectors. Activity in this sector provides the largest contribution to revenue, accounting for approximately one third of Group revenues and has performed very well throughout 2009.

The year has seen us gain preferred supplier status at Airbus and the new contract win with Thales, giving enhanced opportunity within this sector in resourcing to systems and software operations. We continue to provide key resource to other customers including Xchanging / BAE Systems, Rolls Royce and Augusta Westland. Military activity has been strong with maintenance support for RAF fighter jets at their respective RAF bases and the Aircraft Carrier project supported by our Rosyth branch. Whilst spending in certain areas will likely see a decline in 2010 as a result of Government and BAE Systems announced reductions and closures, for example at RAF Cottismore and BAE Woodford, other opportunities do exist. These include supporting civil aerospace projects, particularly in connection with new or adapted models of aircraft to gain fuel efficiency via improved technologies.

#### **Nuclear, Energy and Process**

Nuclear sector activity through 2009 was broadly steady. This reflected maintaining assets and extending or protecting lifecycles of infrastructure. Importantly there has been little new build and limited decommissioning activity as yet, but, as the Government has publicly discussed, nuclear power seems ever more likely to be one of the UK's core strategies to satisfy the future power generation needs of our society. We believe this strategy will develop and define itself over the coming years and that impetus is added with the need for reduced CO2 emissions. Morson has provided multi-disciplined project management design and decommissioning engineers along with outage support to many of the UK's major nuclear clients and assets for over twenty years. We believe the Group has a key role to play in sourcing this talent and we are actively engaged with our clients to assist them as the need arises.

We are pleased to report that renewed and extended contracts have been achieved with British Energy, whose ownership by EdF gives us opportunity to extend our market presence. Balancing these we would note that a contract renewal tender process for Magnox has been unsuccessful, although its loss only begins to impact during the second half of 2010.

As well as our strategic position as supplier to British Energy, Westinghouse and Sellafield, Morson supplies a multitude of other companies supporting this sector. The world has a need for high quality nuclear engineering expertise and we believe the pace and demand for support in decommissioning, refurbishment and building of new facilities will grow. Our geographic coverage and branch locality to all major sites and customers positions Morson well to respond to these exciting future prospects.

#### **Rail & Transport**

Morson supplies skilled personnel to the UK market with particular focus on both the National Rail Network and the London Underground via our key customers, namely Network Rail, Tubelines, and Transport for London, and other clients in the sector. The level of activity with Network Rail did diminish from the second quarter of 2009 as the West Coast mainline project completed. Within London Underground activity has been steadier with the focus on maintenance of the rail infrastructure assets and station refurbishments. Morson provides key engineering expertise across these various projects in signaling, design & commissioning and we are also key suppliers of skilled protection and track operatives.

Thales are a client with significant activity in the Rail sector and our new contract win here will be a focus for us looking forward. Another contract win is with Scott Wilson and we look forward to supporting them across their business. Also, as part of the renewal and tender process certain contracts have now been let by Transport for London. We have been successful in winning an opportunity to provide support for line infrastructure and station refurbishment and maintenance, however on one of our track renewal and repair contracts we have unfortunately gained second tier rather than first tier status, effective during the first quarter of 2010.

Our investment in Link Up approvals and training, enhancing the capability of our workforce, positions Morson well to procure and develop a flow of skills for both above and below ground environments. Looking forward we feel investment in the Underground transportation structure is likely, over and above the maintenance that must continue. We are excited about the Cross Rail project that will need very significant resource throughout its further seven year projected build lifecycle. Transportation links also provide opportunity to deliver our resource to assist civil and building activity alongside the rail infrastructure, for example the rail links required for the Olympics in 2012.

## Other Markets

Morson International has several other initiatives and additional markets that the Group supplies, certain of which are growing and offer notable opportunities for further expansion. We continue to invest in these areas in an intelligent and strategic manner and develop the provision of services to a wider client base. Areas include:

Oil & Gas	Telecomms	Automotive
Building & Construction	Scientific	IT Systems & Software

The Directors believe good growth prospects exist in these areas, which by their nature require niche skills and capability. Some of these, together with our core skills, are more global markets and give impetus to the expansion of the Morson brand. In the forthcoming year we are keen to provide complementary IT Systems and Software contractors through our new division into our existing client base where appropriate.

## Morson Projects: Provision of Engineering Design Consultancy and Management

Investment in Morson Projects over recent years has seen the Company expand and there are now four substantial offices with four further support sites throughout the UK. Morson Projects delivers very high level engineering design consultancy services providing invaluable technical knowledge. This year has again seen an improvement in profits with adjusted operating profit up to £2.3 million (2008: £2.1 million) representing an adjusted operating margin up to 6.6% from 6.5%. This year has seen an increase assisted by a full year contribution from our Nuclear Specialist office based at Sellafield, together with notable work from Airbus and Bombardier conducted from the Birmingham and Belfast design centres of excellence. Our Head Office move into new premises provides an excellent platform for us to enhance our service offering to our clients.

Within our two core markets of Aerospace and Nuclear we are developing new specialisms and expertise and exploring ancillary market opportunities. These include renewable power sources in the "Green Energy" initiative and use of lighter composite materials in aircraft design. The competition for providing resources to deliver engineering expertise to existing projects is strong but we continue to promote technical excellence and grow our market presence. We believe the correct focus of the business is nuclear and power, where demand will continue to be driven by long term expenditure by the Office for Nuclear Development (OND) and Aerospace where we are seeing design demand being driven by the application of technology and innovation in using composite materials and seeking fuel efficiency.

Morson Projects' order book remains healthy with a significant and pleasing win of a key design package of work on Bombardier's proposed new Learjet secured early in 2010 and many tenders for work across both aerospace and nuclear.

## Morson Group Strategy

The business model adopted by the Group has served it well and the Directors believe that this has helped the delivery of solid results in an environment that has seen many competitor companies profits reduce more significantly. Our strategy therefore remains, to continue to focus on our core niche disciplines providing long term specialist contract labour across a range of key sectors within engineering and related technical industries. Plus there is the enhancement to the Group provided by Morson Projects from which the contribution is both material and improving. Morson Projects will also maintain its strategic direction, with a focus alongside the core clients and markets of Morson International. Together the Group is able to offer a wide suite of services, tailored to suit the needs of our clients, to deliver the high quality, professional and cost effective engineering solutions their business demands. This strategy has helped the Group through the current economic cycle by mitigating some of the risks of exposure from over-reliance on either customers, sectors or service offering.

Our strategy is well established and retains within it the ability to flex and react according to the changing market needs. Accordingly we will seek to position the Group to benefit from ongoing work in our core and emerging markets, whilst controlling costs and targeting investment in new areas.

## Our People

Our highly experienced staff across all areas of the Group provide the foundations and cornerstones of the Morson business. Employees recognise that in this economic environment even more focus and determination is required to achieve results. Whilst the Directors have taken action to control costs, the retention of staff remains excellent within the business as the Group's performance offers good career progression and job security. The Board will do what is appropriate to maintain and invest in the ability and talent required to take advantage of Morson's position as any upturn or opportunity in the market occurs.

Both Morson and our clients recognise that the contractor workforce is vital in delivering technical expertise. We continue to have many loyal, hardworking individuals on assignment who provide expert, efficient and flexible services. We continue to invest in our apprenticeship programme within our Morson Projects business and the training programmes within the rail contractor community. The Board extends

sincere thanks to all those who have helped deliver such high quality services on behalf of Morson and its customers. The Board also wishes to highlight and commend the hard work of all our staff across recruitment, payroll, accounts teams and support staff and thanks them for their outstanding contribution during a difficult year.

## 2009 Achievements & Outlook

2009 was a challenging year and we feel the Group has done well to deliver another year of near record results (bettered only by 2008) in both revenue and adjusted operating profit. The achievement over recent years is significant and in the last 15 years we have achieved 17.4% compound growth in revenues and 14.0% compound growth in net fee income, though the current market means it is inevitably much harder to reach these highs. However, we must now position the Group for the future where there is real opportunity. Despite some contract losses or reductions that will effect 2010, we have renewed and extended several contracts which were up for renewal and in addition we have had significant and exciting new contract wins as described earlier.

There is an encouragingly strong demand pipeline for business development tender opportunities and we have integrated the teams across Morson International and Morson Projects to seek to gain optimum business outcome. All core sectors have notable prospects many of which we hope to convert in 2010. We will also continue to focus on delivering cost effective solutions to the market and promoting the outsourcing capability of Morson Projects.

We believe that 2010 will see a continuation of some of the difficult wider economic trading conditions affecting our customers and the forthcoming election and government spending plans are also events of note. Our focus will be to hold faith with our business model, to increase our market share and to identify new niche areas that offer growth whilst closely managing our cost base. We described last year our plans and aims to move into a new Head Office premises and are pleased to confirm that this has been accomplished ahead of plan with the move completed over the Christmas period with minimal disruption to operations. We believe all impacted staff and contractors will feel uplifted by the new working environment. The new premises brings together four disparate local offices and offers the opportunity to develop synergy of working practices and to widen the Group's service offerings to our clients.

The outlook for both the medium and longer term for the business is very exciting. We firmly believe that the Nuclear and Rail sectors will see investment, the Aerospace market needs to take advantage of technological advances and that Morson can demonstrate and deliver professional, technical and cost effective solutions to our clients. Examples of these areas include: the Airbus A350; Bombardier C Series and the new Learjet 85; London 2012 Olympics; Cross Rail; Future CVF/QEC aircraft carrier programmes; nuclear decommissioning programmes across numerous stations; and more. These projects will need resource and Morson, with a diverse range of clients, a broad technical base, an extensive database and experience in sourcing engineers for over forty years, is therefore well positioned for the future.

## FINANCIAL REVIEW

Some Key Performance Indicators are displayed in the table set out below.

### Key Performance Indicators

	2009	2008	Variance	
	£'000	£'000	£'000	%
Revenue	436,627	431,446	5,181	1.2%
NFI	34,773	36,729	(1,956)	(5.3)%
Adjusted operating profit (see below)	12,317	13,532	(1,215)	(9.0)%
Adjusted profit before tax (see below)	10,806	11,747	(941)	(8.0)%
Conversion ratio (NFI to adjusted operating profit)	35.4%	36.8%	(1.4)%	(3.8)%
Adjusted operating profit margin	2.82%	3.14%	(0.32)%	(10.2)%
Interest cover excluding derivative fair value movement and finance income, against adjusted operating profit (see below)	x8.2	x7.5		
Dividend cover measured against adjusted Earnings Per Share (see note 7)	3.1	3.4		
Average contractor numbers	9,100	9,300	-200	2.2%

### Derivation of key performance indicators from Consolidated Income Statement

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	10,661	11,280
Add: amortisation	1,222	972
Add: exceptional head office relocation cost	434	1,280
<b>Adjusted Operating Profit</b>	<b>12,317</b>	<b>13,532</b>
Profit Before Tax	9,680	7,902
(Less) Add: fair value movement in financial instrument	(530)	1,593
Add: amortisation	1,222	972
Add: exceptional head office relocation cost	434	1,280
<b>Adjusted Profit Before Tax</b>	<b>10,806</b>	<b>11,747</b>

**Derivation of key performance indicators from Notes to the Consolidated Income Statement regarding Segmental Reporting**

	<b>2009</b>	<b>2008</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Morson International: temporary and permanent recruitment services				
Operating profit	10,096	11,579		
Add: amortisation	1,222	972		
Add: exceptional head office relocation cost	90	447		
<b>Adjusted Segmental Operating Profit</b>	<b>11,408</b>	<b>12,998</b>	<b>(1,590)</b>	<b>(12.2)%</b>
Morson Projects: engineering design consultancy and management				
Operating profit	1,986	1,316		
Add: exceptional head office relocation cost	344	833		
<b>Adjusted Segmental Operating Profit</b>	<b>2,330</b>	<b>2,149</b>	<b>181</b>	<b>8.4%</b>

These results show very good resilience and consistency against a backdrop of what has been one of the worst recessions in the UK economy that has directly affected the recruitment market within which is the majority of the Group's activity. Revenues across the Group have held up well and whilst profits excluding exceptional head office relocation cost, fair value movement on derivative financial instrument and amortisation have decreased compared to 2008, they remain substantial and not dissimilar to 2007 levels. The average number of contractors measured over the whole period has remained fairly steady, helped by a good first quarter and an influx of second tier business won as part of the managed vendor model. Our working capital has been controlled and notable reductions in net debt achieved, both to the year in comparison to 2008, and the second six month period of 2009 in comparison to the first. We have focused on maintaining or improving market share which carries forward as opportunity to the future. Underlying operating margins have seen pressures as the gross margin achievable has been reduced, though action has been taken to address this with appropriate reductions to the operating overheads.

## Revenue

In 2009 we have seen revenue increase by 1.2% to £436.6 million (2008: £431.4 million), with no acquisitions impacting either of 2009 or 2008 reporting periods. Both Morson International and Morson Projects had revenue broadly consistent with the preceding year.

## Net Fee Income ("NFI")

Group NFI, or gross profit, has decreased to £34.8 million (2008: £36.7 million), a fall of 5.3%. The split of the NFI across temporary recruitment, permanent recruitment and engineering design consultancy was £27.3 million, £0.8 million and £6.7 million respectively (2008: £29.2 million, £1.4 million and £6.1 million).

The Group therefore saw a decrease in its percentage gross margin to 8.0% (2008: 8.5%). Split by operating segments this reflects reduced margins in Morson International of 6.8% (2008: 7.5%) and an improved position to 19.0% (2008: 18.4%) within Morson Projects (divisional margins based on gross revenue). The contributing detrimental factors to this for recruitment were a mix of less higher margin "spot" recruitment business, reduced margins on certain contract wins or renewals and a drop in

permanent recruitment volumes. However Morson Projects achieved an increase in its percentage gross margin, a pleasing achievement through a focus on delivering more added value outsourced contracts.

## **Operating profit and conversion ratio**

Adjusted operating profit decreased by £1.2 million to £12.3 million (2008: £13.5 million), a fall of 9.0% on the comparable year. Considering this by business segment shows recruitment activity under Morson International has seen a fall in adjusted operating profit from £13.0 million to £11.4 million whilst Morson Projects has performed strongly, with adjusted operating profit growth of 8.4% from £2.1 million to £2.3 million.

Operating margins before amortisation and exceptional head office relocation cost for the Group, which are calculated after shared group costs of £1.4 million (2008: £1.6 million), were 2.8 % (2008: 3.1%). This is a reflection of the more difficult trading conditions that manifested themselves through the year and includes the costs of aligning some areas of the Group's overhead to the levels of activity.

A measure of efficiency and performance widely used in the recruitment sector, though less so in that of engineering consultancy, is The "Conversion Ratio" which is measured as the ratio of operating profit before amortisation and exceptional head office relocation cost to NFI. For the Group this year this measure is 35.4% (2008: 36.8%), which the Board feels is an excellent result maintaining a consistently high performance, confirming our ability to deliver in an efficient manner a wide offering of engineering technical resource and services to our clients from a nationwide network of offices.

## **Exceptional item**

The exceptional charge of £0.4 million (2008: £1.3 million) relates to costs associated with the move into new Head Office premises. This comprises a charge of £271,000 (2008: £91,000) resulting from accelerated depreciation charge on fixed assets at the Group's vacated properties along with other costs directly related to the move of £163,000 (2008: £nil). The charge incurred in 2008 also included £1,189,000 in relation to the exiting of existing leases, this charge was settled early in 2010. Information on this matter was considered at an Extraordinary General Meeting (EGM) which was held on 22 May 2008 which gained shareholder approval. The associated circular document can be found on the website [www.morson.com](http://www.morson.com).

## **Finance costs**

As in 2008 finance costs incurred in the consolidated income statement include two key elements.

Firstly there is a finance charge of £1.5 million (2008: £1.8 million). This charge is a reflection of the costs incurred on borrowings through a function of both bank base rates and the financial instrument connected to these. With average net debt during 2009 of £21.3 million (2008: £30.7 million) this gives a blended cost of finance of 7.0% (2008: 5.9%).

The Group's core facility has cost calculated on bank base rates plus an agreed margin and there is also an overdraft facility. These flexible facilities allow the Group to borrow only what it needs and thus the Group's interest cost is commensurate with the working capital needs and cash generated from our operations.

The Group continues to hold its banking facilities with our current provider with whom we also have a revolving credit facility.

Secondly, recognised separately as a finance cost in the consolidated income statement is a credit of £530,000 (2008: charge of £1,593,000) relating to the fair value movement of the derivative financial instrument entered into to protect the Group against high interest rates. The instrument is a structured interest rate collar with a cap of 6.00% and a floor of 3.95%, meaning that as the base rate falls below 3.95% the cost increases in direct proportion from this lower level to the cap of 6.00%. The significant and unprecedented drop in the UK bank base rate thus caused the large negative fair value of the instrument recognised in the 2008 Report. The credit to the 2009 accounts reflects the movement in the fair value of the derivative financial instrument over the year to the balance sheet date. Any interest payable under this instrument is only paid or received quarterly in arrears and is dependent on the actual base rate during that period. Thus the charge in any period will reflect actual determined interest (paid quarterly in arrears and included in the recognised finance cost above) together with non-cash fair value movements as the term of the instrument unwinds. The operation of this instrument over its term should mean that, assuming a similar funding structure, future actual payable interest charges for the business for the amount covered by the instrument (£20 million) are not materially different from those in prior periods.

Interest cover for the finance charge pre fair value movement on the derivative, exceptional head office relocation cost and amortisation for the year increased to 8.2 times (2008: 7.5 times).

## **Adjusted profit before tax**

Adjusted profit before tax has fallen by 8.0% to £10.8 million (2008: £11.7 million). The adjusting items are: the amortisation charge for intangible fixed assets calculated in accordance with IFRS 3 relating to the acquisitions made during 2006 and 2007, for the current year this charge was £1.2 million (2008: £1.0 million); the exceptional cost regarding the move to new premises described above of £0.4 million (2008: £1.3 million); and the fair value movement gain on the derivative financial instrument of £0.5 million (2008: loss of £1.6 million). We consider that the measure of adjusted profit before tax gives a meaningful and informative comparator against the prior year's performance. Actual profit before tax after these matters was £9.7 million (2008: £7.9 million), a rise of £1.8 million or 22.5%. The tables above provide a reconciliation of the adjusted operating profit and adjusted profit before tax back to the statutory figures per the consolidated income statement.

## **Tax**

The Group's effective rate of tax for the year was 25.1% (2008: 26.3%), lower than the standard rate of tax of 28% (2008: lower than standard rate of 28.5%). The key factor impacting this underlying charge for the Group which tends to decrease the tax rate is certain costs that qualify as Research and Development expenditure eligible for tax relief. However, redressing this somewhat is the absence of tax relief on certain amortisation costs and certain disallowable business expenses that tend to increase the tax rate for the Group.

## **Earnings per share**

Basic earnings per share increased to 16.07 pence (2008: 12.91 pence), a rise of 24.5%, however adjusted earnings per share (before amortisation of intangible fixed assets, the exceptional head office relocation cost and fair value movement of the derivative financial instrument) was down by 10.5% to 18.48 pence (2008: 20.64 pence).

Share options have been granted during the year and further information is given within the Remuneration Report.

## **Dividend**

The Board has recommended that dividend levels be maintained in line with the previous year and therefore that a final dividend of 4.0 pence (2008: 4.0 pence) per share payable on 28 May 2010 to shareholders on the register at 7 May 2010, subject to approval at the annual general meeting on 24 May 2010. An interim dividend of 2.0 pence per share (2008: 2.0 pence) was paid on 30 October 2009, making a total dividend of 6.0 pence per share (2008: 6.0 pence) for the year. The total dividend is covered 2.7 times (2008: 2.2 times) by current year earnings.

## **Cash flow and financing**

The debt position of the Group is most affected by the recruitment activity of Morson International rather than the design consultancy of Morson Projects. The nature of temporary recruitment activity is such that, all else being equal, growth necessarily causes the absorption of cash. The converse may also be said to be true, thus the slowing of growth experienced by the business has benefited the net debt position. Working capital still needs managing and may very well be impacted by material key client contract terms. Over the period these factors have helped bring the net debt position down considerably. Net cash generated by operations (before tax and interest) was £25.2 million (2008: £16.1 million), representing a conversion of 205% of adjusted operating profit (2008: 119%). Tax paid fell from £3.4 million to £2.4 million due to reduction in adjusted profit before tax, adjustment for prior periods and some allowable research and development expenditure. During the year, working capital decreased by £12.0 million (2008: decreased by £1.7 million), an excellent result, connected principally to good cash collection achieved at the year end and an increase in Trade Payables caused by higher levels of corporate suppliers and short term timing differences in payments to contractors. An indicative calculation counting revenue plus closing rate VAT back into Trade and Other Receivables gives debt turn at the year end of 51 days (2008: 56 days). Capital expenditure at £1.6 million (2008: £1.0 million) was as expected, however also we must note that the majority of the capital commitments and outflows with regard to the New Head Office did not occur until 2010. As was explained within the circular of May 2008 and previous Report and Accounts the order of these was £1.2 million in respect of exiting existing leases and £750,000 capital contribution, both being related party transactions, as well as an estimated £1.425 million regarding fit out and moving costs. Whilst this remains to be finalised it is expected to be broadly in line with these values.

The financing facilities utilised by the Group are consistent with 2008. The core facility is an invoice discounting facility that can grow with the business as it expands and is secured on our largely blue chip debtor book. The Directors believe this type of facility is entirely consistent with that used by companies providing similar services and is one that suits the Group's business model very well. We maintain a close working relationship with our provider and during the year extended the period of the existing facility to the end of March 2011. Costs are on a bank base rate plus margin basis. The current capacity of the facility affords the Group significant headroom. The Group also has a revolving credit facility of £5 million, in place until March 2011. At year end this was not utilised (2008: not utilised) as there was plenty of capacity within the Invoice Discounting facility. Discussion is already underway with regards to the renewal of

appropriate facilities and we are confident that this will be achieved during 2010. Consideration of the going concern basis is provided in note 1 to this preliminary announcement.

## Balance sheet

Net assets have increased to £57.4 million (2008: £52.9 million). This increase principally reflects the impact of the retained profit for the year. Net bank debt at the year end was £11.0 million (2008: £27.7 million).

## CONSOLIDATED INCOME STATEMENT YEAR ENDED 31 DECEMBER 2009

	Note	2009 Unaudited £'000	2008 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue	2	436,627	431,446
Cost of sales		(401,854)	(394,717)
<b>GROSS PROFIT</b>	2	<b>34,773</b>	36,729
Administrative costs			
Amortisation of intangible fixed assets		(1,222)	(972)
Exceptional head office relocation cost	3	(434)	(1,280)
Other administrative expenses		(22,456)	(23,197)
<b>OPERATING PROFIT</b>	2	<b>10,661</b>	11,280
Finance income		-	27
Fair value movements on derivative financial instrument		530	(1,593)
Finance cost	4	(1,511)	(1,812)
<b>PROFIT BEFORE TAXATION</b>		<b>9,680</b>	7,902
Taxation	5	(2,434)	(2,076)
<b>NET PROFIT FOR THE YEAR</b>	3	<b>7,246</b>	5,826
Attributable to:			
Equity holders of the parent		7,193	5,807
Minority interests		53	19
		<b>7,246</b>	5,826
<b>EARNINGS PER SHARE</b>			
From continuing operations			
Basic (pence)	7	16.07	12.91
Diluted (pence)	7	15.91	12.82

The Group has no recognised gains or losses in the current and prior year other than those reported above and therefore no separate consolidated statement of recognised income and expenditure has been presented.

All activity has arisen from continuing operations.

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2009**

	2009 Unaudited	2008
	Note	£'000
<b>NON-CURRENT ASSETS</b>		
Goodwill	32,945	32,945
Other intangible assets	739	1,961
Property, plant and equipment	3,282	2,352
Deferred tax asset	252	474
	<b>37,218</b>	<b>37,732</b>
<b>CURRENT ASSETS</b>		
Trade and other receivables	69,485	75,583
Cash and cash equivalents	130	120
	<b>69,615</b>	<b>75,703</b>
<b>TOTAL ASSETS</b>	<b>106,833</b>	<b>113,435</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	(36,098)	(29,568)
Current tax liabilities	(1,176)	(1,383)
Obligations under finance leases	(61)	(171)
Bank overdrafts and loans	8 (11,064)	(27,801)
Derivative financial instrument	(1,063)	(1,593)
	<b>(49,462)</b>	<b>(60,516)</b>
<b>NET CURRENT ASSETS</b>	<b>20,153</b>	<b>15,187</b>
<b>TOTAL LIABILITIES</b>	<b>(49,462)</b>	<b>(60,516)</b>
<b>NET ASSETS</b>	<b>57,371</b>	<b>52,919</b>
<b>EQUITY</b>		
Issued capital	9 2,267	2,267
Share premium account	9 37,607	37,607
Retained earnings	9 18,087	13,520
Other reserves	9 (694)	(526)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>57,267</b>	<b>52,868</b>
Minority interest	104	51
<b>TOTAL EQUITY</b>	<b>57,371</b>	<b>52,919</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 DECEMBER 2009**

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Own shares £'000	Total £'000	Minority interests £'000	Total Equity £'000
<b>AT 1 JANUARY 2008</b>	2,267	37,607	10,310	(182)	50,002	32	50,034
Profit for the year	—	—	5,807	—	5,807	19	5,826
Dividends paid	—	—	(2,657)	—	(2,657)	—	(2,657)
Share-based payments	—	—	96	—	96	—	96
Purchase of own shares	—	—	—	(380)	(380)	—	(380)
Exercise of share options	—	—	(36)	36	—	—	—
<b>AT 1 JANUARY 2009</b>	2,267	37,607	13,520	(526)	52,868	51	52,919
Profit for the year	—	—	7,193	—	7,193	53	7,246
Dividends paid	—	—	(2,686)	—	(2,686)	—	(2,686)
Share-based payments	—	—	96	—	96	—	96
Purchase of own shares	—	—	—	(204)	(204)	—	(204)
Exercise of share options	—	—	(36)	36	—	—	—
<b>AT 31 DECEMBER 2009 (UNAUDITED)</b>	<b>2,267</b>	<b>37,607</b>	<b>18,087</b>	<b>(694)</b>	<b>57,267</b>	<b>104</b>	<b>57,371</b>

**CONSOLIDATED CASH FLOW STATEMENT  
YEAR ENDED 31 DECEMBER 2009**

	Note	2009 Unaudited £'000	2008 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	10	<b>21,277</b>	10,928
<b>INVESTING ACTIVITIES</b>			
Interest received		—	27
Proceeds on disposal of property, plant and equipment		<b>36</b>	77
Purchases of property, plant and equipment		<b>(1,566)</b>	(1,007)
Acquisition of subsidiaries		—	(105)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(1,530)</b>	(1,008)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		<b>(2,686)</b>	(2,657)
Repayments of borrowings		—	(3,000)
Purchase of own shares		<b>(204)</b>	(380)
Repayments of obligations under finance leases		<b>(110)</b>	(109)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(3,000)</b>	(6,146)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>16,747</b>	3,774
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>(27,681)</b>	(31,455)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>(10,934)</b>	(27,681)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## YEAR ENDED 31 DECEMBER 2009

### 1. GENERAL INFORMATION

Morson Group PLC is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Adamson House, Centenary Way, Salford, Manchester M50 1RD. The nature of the Group's operations and its principal activities are set out in note 2 and in the Business Review.

These financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in April 2010.

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2009 or 2008. The financial information for the year ended 31 December 2008 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s237(2) or (3) Companies Act 1985. The audit of the statutory accounts for the year ended 31 December 2009 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

### ***BASIS OF ACCOUNTING***

The financial statements will be prepared in accordance with IFRS as adopted by the European Union.

The financial statements will be prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements will be prepared in accordance with accounting policies previously published in the Company's 2008 financial statements.

### ***GOING CONCERN***

The Directors are required to satisfy themselves as to whether the financial statements of the Group should be prepared on a going concern basis. As part of the ongoing duties and activities of the Board there is continual assessment of the Group's financial and commercial performance. This review considers business risks and uncertainties that exist and takes account of how wider economic circumstances can impact these, including due consideration and assessment of potentially adverse and testing situations. The Board looks forward and appropriate forecasts of financial performance and assessment of future business opportunities and challenges are regularly made. The Directors have also considered the financial support required for these anticipated income streams and note that the Group's current financing arrangements run until 31 March 2011 for its invoice discounting facility and until 23 March 2011 for its revolving credit facility. The Directors have already opened discussions with the current finance provider about the continued provision of these facilities going forward and have no reason to believe that the renewal of facilities will not be forthcoming on acceptable terms. Further information regarding cash flow and financing as well as the Group's outlook is discussed in the Chairman's Statement and the Business Review.

Having properly considered the matter the Directors conclude that they are satisfied that the financial statements should be prepared on a going concern basis.

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS

### ***BUSINESS SEGMENTS***

The two reported operating segments in this note are reported as the provision of temporary and permanent recruitment services and the provision of engineering design consultancy and management. These operating segments are consistent with the reporting regularly provided to the Board of Directors. It is these reports which the directors use to review the Group's operating results, assess performance and make decisions about resource allocation.

The Group's business is described in sectors for the purposes of the Business Review. This is to enable readers to gain a better understanding of the breadth of our service offering as well as allowing an informed and helpful comparison to other organisations also operating in our markets. The database of candidates held by the Group to supply to these sectors is a combined one, encompassing a wide diversity of skills and talent, and whilst it has some sector specific requirements, is in essence provided in the same manner across all sectors. Performance and analysis of activity by these sectors is not a key management measure, nor is it reported regularly to the Board of Directors and the business is not managed or divided internally by these sectors. The key information used to manage the business is by activity type, i.e. the provision of temporary and permanent recruitment services and the provision of engineering design consultancy and management.

	Provision of temporary and permanent recruitment services		Provision of engineering design consultancy and management		Total	
	2009 Unaudited £'000	2008 £'000	2009 Unaudited £'000	2008 £'000	2009 Unaudited £'000	2008 £'000
Gross revenue	412,277	408,652	35,358	33,078	447,635	441,730
Inter-segment sales	(10,470)	(9,872)	(538)	(412)	(11,008)	(10,284)
Revenue to third parties	401,807	398,780	34,820	32,666	436,627	431,446
Segmental gross profit	28,054	30,632	6,719	6,097	34,773	36,729
Administrative expenses	(16,646)	(17,634)	(4,389)	(3,948)	(21,035)	(21,582)
Exceptional head office relocation cost	(90)	(447)	(344)	(833)	(434)	(1,280)
Amortisation of intangible assets	(1,222)	(972)	—	—	(1,222)	(972)
Shared costs	—	—	—	—	(1,421)	(1,615)
<b>SEGMENT RESULT</b>	<b>10,096</b>	<b>11,579</b>	<b>1,986</b>	<b>1,316</b>	<b>10,661</b>	<b>11,280</b>
Finance charge (net)	(1,489)	(1,670)	(20)	(79)	(1,509)	(1,749)
Shared finance income/(charge)	—	—	—	—	528	(1,629)
<b>SEGMENT RESULT AFTER FINANCE CHARGES</b>	<b>8,607</b>	<b>9,909</b>	<b>1,966</b>	<b>1,237</b>	<b>9,680</b>	<b>7,902</b>
Taxation					(2,434)	(2,076)
<b>PROFIT AFTER TAXATION</b>					<b>7,246</b>	<b>5,826</b>
Capital additions	1,050	515	989	492	2,039	1,007
Depreciation and amortisation	1,610	1,342	687	504	2,297	1,846
<b>NET ASSETS</b>						
Segment assets excluding amounts due from other group companies	87,619	93,248	18,106	19,068	105,725	112,316
Unallocated corporate assets					1,108	1,119
Consolidated total assets					106,833	113,435
Segment liabilities excluding amounts due to other group companies	(38,381)	(48,222)	(7,774)	(8,943)	(46,155)	(57,165)
Unallocated corporate liabilities					(3,307)	(3,351)
Consolidated total liabilities					(49,462)	(60,516)
Consolidated net assets					57,371	52,919

The centre of operations for all services delivered to clients is the UK. The Directors consider that the Group does not generate material profits from overseas operations and therefore no geographical segmental information is presented.

Inter-segment sales are charged at prevailing market prices. Within the engineering design consultancy and management segment there exists some provision of temporary recruitment services, however this is entirely related to the provision of engineering design consultancy and management.

Accelerated depreciation charged of £271,000 (2008: £91,000) as a result of the move to new premises at Adamson House, Centenary Way, is included in the depreciation and amortisation line above as well as within the exceptional head office relocation cost line. See note 3 for further details.

Segment profit is measured as those income streams and costs which are directly attributable to the segment in question. Segment assets and liabilities are those held within the segment in question with the exception of goodwill which is allocated to business segments.

Unallocated corporate assets consist of receivables in Morson Holdings Limited and Morson Group PLC. Unallocated corporate liabilities comprise accruals and the fair value of the derivative financial instrument which is accounted for at Group level. Goodwill previously presented within unallocated corporate assets and liabilities has been allocated to business segments as the directors consider that this gives a fairer representation of the spread of value of the Group.

Included in revenues arising from the provision of temporary and permanent recruitment services are revenues of £80,103,000 (2008: £74,080,000) which arose from sales to the Group's largest customer.

### 3. PROFIT FOR THE YEAR

	Continuing operations	
	2009	2008
	Unaudited	
	£'000	£'000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	1,075	874
Foreign exchange gains	(30)	(67)
Profit on disposal of fixed assets	(2)	(33)
Amortisation of intangible assets	1,222	972
Staff costs	19,970	19,140
Exceptional head office relocation cost (accelerated depreciation amount included in depreciation line)	163	1,189
Movement in allowance for doubtful debts	(459)	744

Operating costs of £434,000 have been presented as exceptional costs in the current year in relation to the relocation of the Group's head office which occurred in December 2009. This comprises £271,000 relating to the accelerated depreciation and final write-down of fixed assets relating to the previous premises at Darwen House and Stableford Hall (included within the depreciation line shown above) and £163,000 of costs directly associated with the move. This includes an accrual for professional fees, relocation costs and overtime costs incurred which are directly related to the relocation and would not otherwise have been incurred. In the 2008 accounts a cost of £1,189,000 was recognised which directly relates to the variation of the leases for Darwen House and Stableford Hall which were provided in full. A further £91,000 was recognised as a result of the accelerated depreciation charge for fixed assets in those buildings.

### 4. FINANCE COSTS

	Continuing operations	
	2009	2008
	Unaudited	
	£'000	£'000
Interest on bank overdrafts and loans	297	1,653
Interest paid in respect of the derivative financial instrument	1,172	80
Other financing charges payable	29	56
Interest on obligations under finance leases	13	23
Total finance costs	1,511	1,812

Fair value movements on the derivative financial instrument have been disclosed on the face of the income statement.

The loans and overdraft which result in the interest charge are described in more detail in note 8.

No gains or losses have been recognised on financial liabilities measured at amortised cost.

### 5. TAX

	Continuing operations	
	2009	2008
	Unaudited	
	£'000	£'000
Current tax	2,214	3,050
Adjustments in respect of prior years	(2)	16
Deferred tax – current year	67	(837)
– prior year	155	(153)
	2,434	2,076

Corporation tax is calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdiction.

The charge for the year can be reconciled to the profit as per the income statement as follows:

	2009	2008
	Unaudited	
	£'000	£'000

Profit before taxation	<b>9,680</b>	7,902
Tax at the UK corporation tax rate of 28% (2008: 28.5%)	<b>2,710</b>	2,252
Expenses not deductible for tax purposes	<b>257</b>	337
Income not taxable	<b>(30)</b>	(14)
Effect of double tax relief	<b>(234)</b>	-
Effect of research and development tax credits	<b>(365)</b>	(365)
Utilisation of losses	<b>(51)</b>	-
Adjustments to tax charge in respect of prior periods	<b>153</b>	(137)
Other	<b>(6)</b>	3
Tax expense for the year	<b>2,434</b>	2,076

## 6. DIVIDENDS

	<b>2009</b>	2008
	<b>Unaudited</b>	
	<b>£'000</b>	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2008 of 4.0 pence per share (year ended 31 December 2007: 4.0 pence)	<b>1,792</b>	1,758
Interim dividend for the year ended 31 December 2009 of 2.0 pence per ordinary share (year ended 31 December 2008: 2.0 pence)	<b>894</b>	899
	<b>2,686</b>	2,657
Proposed final dividend for the year ended 31 December 2009 of 4.0 pence (2008: 4.0 pence)	<b>1,787</b>	1,792

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 7. EARNINGS PER SHARE

### FROM CONTINUING OPERATIONS

The calculation of earnings per share is based on the following data and numbers of shares:

	<b>2009</b>	2008
	<b>Unaudited</b>	
	<b>£'000</b>	£'000
Profit for the year used for the calculation of basic earnings per share	<b>7,193</b>	5,807
Amortisation of intangible assets	<b>1,222</b>	972
Exceptional head office relocation cost	<b>434</b>	1,280
Fair value movements on derivative financial instruments	<b>(530)</b>	1,593
Tax effect of adjustments at 28% (2008: 28.5%)	<b>(46)</b>	(365)
Earnings for the purposes of adjusted earnings per share	<b>8,273</b>	9,287

	<b>2009</b>	2008
	<b>Unaudited</b>	
<b>NUMBER OF SHARES</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>44,766,798</b>	44,996,656
Effect of potentially dilutive ordinary shares:		
– share options	<b>453,760</b>	314,067
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>45,220,558</b>	45,310,723
Earnings per share:		
– basic (pence)	<b>16.07</b>	12.91
– diluted (pence)	<b>15.91</b>	12.82
Adjusted earnings per share:		
– basic (pence)	<b>18.48</b>	20.64
– diluted (pence)	<b>18.30</b>	20.50

The adjusted earnings per share has been calculated on the basis of continuing operations before amortisation of intangible assets, the exceptional head office relocation cost and the fair value movement of the derivative financial instrument, net of tax. The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's earnings per share.

## 8. BORROWINGS

	2009 Unaudited £'000	2008 £'000
<b>SECURED BORROWING AT AMORTISED COST</b>		
Bank overdrafts	11,064	27,801
<b>UNSECURED BORROWING AT AMORTISED COST</b>		
Bank loans	—	—
The borrowings are repayable as follows:		
On demand or within one year	11,064	27,801

	2009 Unaudited %	2008 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	1.58	5.55
Bank loans	—	7.07

All borrowings are in Pounds Sterling and are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Directors consider that the carrying value of borrowings approximates to their fair value.

The other principal features of the Group's borrowings are as follows:

- (i) bank overdrafts are repayable on demand. Overdrafts of £11,064,000 (2008: £27,801,000) have been secured on the trade debtors of the Group. The average effective interest rate on bank overdrafts approximates 1.58% (2008: 5.55%) per annum; and
- (ii) bank loans represent a revolving credit facility whereby the Group may borrow up to £5 million subject to satisfaction of the requirements of the facility. The interest rate of the loan is set at 1.25% above LIBOR lending rate. Subject to the conditions of the facility the loan may be used for both working capital and acquisitions. The period of the loan is set by interest periods at the end of which the Group may repay all, part of or borrow more up to the ceiling. The loan has not been utilised in the current year.

At 31 December 2009, the Group had available £24,561,000 (2008: £29,517,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

## 9. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Own shares £'000	Total £'000
<b>AT 1 JANUARY 2008</b>	2,267	37,607	10,310	(182)	50,002
Profit for the year	—	—	5,807	—	5,807
Dividends paid	—	—	(2,657)	—	(2,657)
Share-based payments	—	—	96	—	96
Purchase of own shares	—	—	—	(380)	(380)
Exercise of share options	—	—	(36)	36	—
<b>AT 1 JANUARY 2009</b>	2,267	37,607	13,520	(526)	52,868
Profit for the year	—	—	7,193	—	7,193
Dividends paid	—	—	(2,686)	—	(2,686)
Share-based payments	—	—	96	—	96
Purchase of own shares	—	—	—	(204)	(204)
Exercise of share options	—	—	(36)	36	—
<b>AT 31 DECEMBER 2009 (UNAUDITED)</b>	<b>2,267</b>	<b>37,607</b>	<b>18,087</b>	<b>(694)</b>	<b>57,267</b>

Investments in "own shares" to a value of £109,000 (2008: £146,000) are held by Morson Employee Benefit Trust Limited to satisfy options awarded on 1 March 2006 under an EMI Scheme equally to three senior employees who are not statutory Directors of the Company or a Group company.

During 2008 the Morson Group PLC Employee Benefit Trust was established with a view to facilitating Employee Share Schemes and satisfying share options that might be awarded by the Group from time to time. Loans to a value of £204,000 have been made to this Trust during 2009 and these have been used completely and exclusively to buy Morson Group PLC shares. As at 31 December 2009 the Trust held 500,000 ordinary 5 pence shares in Morson Group PLC and no other securities or investments. A further 119,000 ordinary 5 pence shares in Morson Group PLC were purchased by the Trust on 21 January 2010 for a consideration of £120,000 financed by a loan from Morson Group PLC. There has been no charge to the consolidated income statement during the year.

## 10. NOTES TO THE CASH FLOW STATEMENT

### RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATIONS

	2009 Unaudited £'000	2008 £'000
Operating profit	10,661	11,280
Adjustments for:		
Exceptional head office relocation cost (accelerated depreciation amount included in depreciation line)	163	1,189
Depreciation of property, plant and equipment	1,075	874
Amortisation of intangible assets	1,222	972
Share-based payment expense	96	96
Gain on disposal of property, plant and equipment	(2)	(33)
Operating cash flows before movements in working capital	13,215	14,378
Decrease / (increase) in inventories	534	(372)
Decrease / (increase) in receivables	5,565	(1,206)
Increase in payables	5,893	3,292
Cash-generated by operations	25,207	16,092
Income taxes paid	(2,419)	(3,432)
Interest paid	(1,511)	(1,732)
Net cash generated from operating activities	21,277	10,928

## 11. COPIES OF THIS STATEMENT

The Group's report and accounts for the year ended 31 December 2009 are expected to be posted to shareholders on 9 April 2009 and will also be available from the Company's head office at Adamson House, Centenary Way, Salford, Manchester, M50 1RD and will be available for download from its website at: [www.morson.com](http://www.morson.com)