



Morson Group PLC
('Morson' or 'the Group')

Preliminary Results for the year ended 31 December 2008

Morson (AIM: MRN.L) the UK's leading provider of technical contract staffing, supplying over 9,000 highly skilled personnel to the aerospace and defence, nuclear and power and rail industries, is pleased to announce its preliminary results for the year ended 31 December 2008.

Highlights

- Strong trading performance across the Group
 - Group revenues up 9.5% to £431.4 million (2007: £394.0 million)
 - Net fee income up 9.1% to £36.7m (2007: £33.7m)
 - Adjusted profit before tax, up 9.2% to £11.7m (2007: £10.8m) †
 - Adjusted Basic earnings per share up 23.7% to 20.64 pence (2007: 16.68 pence)†
 - Profit after tax of £5.8 million (2007: £6.9 million)
 - Basic earnings per share of 12.91 pence (2007: 15.26 pence)
- Continued resilience and consistency across all the Group's divisions
- Group benefiting from clients' strategic approach to recruitment
- Current trading in line with directors' expectations
- Proposed final dividend of 4.0 pence per share (2007: 3.9 pence) bringing the total dividend for the year to 6.0 pence (2007: 5.8 pence)

† before amortisation, exceptional lease variation cost and fair value movement on the derivative financial instrument of £1,593,000 (2007: nil) which is to protect against high bank base rates

Gerry Mason, Non Executive Chairman, said:

"I am pleased to report another successful year for Morson as we celebrate our 40th anniversary. Our results yet again demonstrate the robust nature of our business model against the backdrop of an uncertain economic climate. Whilst the future will no doubt be challenging, our proven strategy of investing in our long term client relationships provides us with an enviable level of forward trading visibility and allows us to look into 2009 with confidence."

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CHAIRMAN'S STATEMENT

Introduction

In spite of the widely reported economic uncertainties in the banking, financial, retail and many other sectors it is my pleasure to report a strong performance from Morson Group PLC ("the Group" or "Morson"), whom I am proud to represent as Chairman. I am pleased to report that both core trading companies in the Group have performed well and that 2008 has produced another record set of results with regards to both revenue and adjusted operating profits as we now celebrate our 40th anniversary.

Throughout the history of Morson our focus and objective has been to deliver profitable growth and forward visibility of revenues. These, generated across our core business units, continue to stand firm and in each of our multi-disciplined markets there are a variety of opportunities which will provide an excellent platform for continuing the Group's growth into the future.

Results

Key financial highlights include:

- Group revenues up 9.5% to £431.4 million (2007: £394.0 million)
- Group net fee income up 9.1% to £36.7million (2007: £33.7 million)
- Adjusted operating profit increased by 4.8% from £12.9 million to £13.5million*
- Adjusted profit before tax up 9.2% to £11.7 million (2007: £10.8 million)[†]
- Adjusted earnings per share up 23.7% to 20.64 pence (2007: 16.68 pence)[†]
- Profit after tax of £5.8 million (2007: £6.9 million)
- Basic earnings per share of 12.91 pence (2007: 15.26 pence)
- Group net assets increased from £50.0 million to £52.9 million
- Proposed final dividend of 4.0 pence per share (2007: 3.9 pence)

** before amortisation of £972,000 (2007: £639,000) and exceptional lease variation cost of £1,280,000 (2007: £nil)*

† before amortisation of £972,000 and exceptional lease variation cost of £1,280,000 and fair value charge regarding the derivative financial instrument £1,593,000 (2007: £nil)

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

Strategy

Our business model focuses on delivering organic growth and consolidating our position as a prime supplier in our key markets by ensuring a good spread of blue chip clients within and across a number of sectors. We progressively cross sell the Group's different service offerings to these clients and specifically target areas of spend and long-term activity that are often ultimately supported by public institutions. This helps ensure that our performance is not dominated by, or over-exposed to, any one sector. This effectively insulates Morson from downturns in particular areas of the economy and helps make our business model more resilient in the current economic environment. Progress in this diversification has been achieved this year particularly within Morson Projects and our Telecoms division.

We continue to prudently manage our business and overheads to underpin margins and provide stability over the long term. We are actively pursuing international business as a key objective and are targeting opportunities with existing customers with their projects overseas. This strategy runs in parallel with our focus on the broad range of energy and infrastructure projects which will need skilled resource over the coming years.

Morson's success to date has been the supply of qualified contract personnel on long term assignments and this is the foundation of our Morson International business. The current climate appears to be working to our advantage.

During the latter part of the year we saw an increase in demand for temporary contractors whilst permanent staff demand, which is a small part of our income at just 3.8% of net fee income (NFI), declined. This supports our view that clients are taking an increasingly defensive hiring strategy by using temporary personnel as opposed to permanent staff.

Morson is looking forward to what will of course be a challenging period. However we are confident of our proven strategy and approach to engender long term relationships which provides critical visibility to our business going forward.

Dividends

The Board proposes a final dividend of 4.0 pence per share (2007: 3.9 pence) giving a total dividend for the year of 6.0 pence per share (2007: 5.8 pence), an increase of 3.4% on the previous year. This increase reflects the increased adjusted earnings and a confidence that the Group is well placed to continue to develop and grow. The final dividend, pending approval, will be paid on 28 May 2009 to shareholders on the register at 1 May 2009.

Debt

Much emphasis and market commentary has been given to debt within the current economic climate. As a temporary contract driven business it is normal and appropriate for our business model that we carry reasonable debt levels secured on the debtor book. The core reason for this is that while contractors are predominantly paid weekly, our clients pay Morson in line with extended commercial contractually agreed arrangements.

Our aim is to maintain a conservative and efficient capital structure with, in the Board's opinion, a relatively low level of debt. In assessing this our key asset is Trade and Other Receivables and measured against this our ratio of debt at 31 December 2008 of £27.8 million (2007: £34.9 million) is 37% (2007: 47%). This is a low level for the Group and even measured at average borrowing levels for the year of £30.7 million (2007: £32.6 million) this ratio is some 41% (2007: 44%). Our clients view us as a respected, stable partner, which we believe is particularly attractive as we are delivering large-scale services to them. The Board considers that the Group has considerable headroom under existing facilities to address the ongoing needs of the business.

Acquisitions

During 2008 no acquisitions were made. Those from the prior year have been fully integrated and we are developing the cross selling opportunities available. It is our intention to be very selective on potential acquisitions going forward, considering only those opportunities that fit our development strategy or provide attractive returns and synergies.

People

Once again our senior management and staff have assisted in delivering another record year in an exceptionally volatile economic environment. Morson places its staff and contractors first which maintains a sense of pride within the Group. Our mantra is that "people are our most important asset." Our aim is always to focus on operational excellence and efficient delivery models. I am particularly grateful to all our employees for their valued contribution to the successful development of our company, especially coming into our 40th year of trading, and proud of their experience, passion, determination and clear purpose. This ethos will assist in promoting the professional perspectives of the Group to employees, contractors and clients alike.

Outlook

The financial year has started well with trading throughout the Group in line with the Board's expectations.

Although a number of economic indicators remain uncertain, we believe the outlook for Morson remains positive. The requirement for maintained, new and upgraded infrastructure remains both in the UK and overseas. Many of our important markets such as nuclear and defence design are busy and have committed future investment opportunities.

The Group has an extensive client base spanning the technical sectors including nuclear power, petrochemical, pharmaceutical, aerospace, defence, telecoms, infrastructure and information communication technology. This provides us with a strong foundation to withstand adverse wider economic conditions and grow in the current climate. Our unique Morson Projects consultant design division allows us to take advantage of clients shifting focus to outsourced design. With recruitment, consulting design and innovative resource models working in conjunction, Morson as a group can provide clients with a complete solution, facilitating our clients' demands for a more flexible design and contract workforce particularly for major infrastructure and maintenance projects, for example the Olympics, Cross Rail, Thames Link, CVF Aircraft Carriers and nuclear site activity.

In looking forward into 2009 and beyond we believe the momentum of the last six months of 2008 will contribute to sustaining our performance into the coming year. We are confident that our business is sufficiently robust to enable us to continue to deliver real growth throughout the demanding economic cycle. Without any sense of complacency we

take confidence from our track record and the flexible business model which has seen us grow over the last 40 years and look forward to the current year with confidence.

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. Both businesses have again achieved excellent results with strong operational performance across all sectors, cementing our status as the UK's number one provider of engineering and technical human resource solutions. These impressive results were achieved despite challenging markets.

We operate across a range of engineering and design markets drawing on and sharing common skills and expertise to deliver innovative solutions. We continue to work in partnership with our customers across our key sectors of infrastructure, rail, nuclear, aerospace and defence, many of whom we have long-term relationships with spanning over 20 years.

The increase in provision of long term contractors supplied by Morson International has seen its Net Fee Income (NFI) rise 7.7% from £28.4m to £30.6m. Of this 42% (2007: 44%) is converted into operating profit before interest, tax and exceptional item, well ahead of most of our peer group and a key performance indicator for the business.

Morson Projects has seen its gross profit increase by 16.8% from £5.2 million to £6.1 million and an outstanding 22.5% rise in operating profit before exceptional item from £1.8 million to £2.1 million.

In 2008 the combined conversion ratio of NFI to adjusted operating profit for the Group was 36.8% (2007: 38.4%).

Market Overview

During the year the Group further consolidated its market leading position as the UK's leading provider of personnel for engineering and technical disciplines achieving strong organic growth. Throughout the year demand levels for our contractors remained robust driven by a continued need for engineering white collar skills to satisfy infrastructure and project demand. In 2008 the average numbers of contractors engaged grew by 4.5% to 9,300 from 8,900. Another key element of our strategy has been to promote the prominence of our supplier position. As more and more clients seek to rationalise their supply chain Morson has been well placed to win a number of Managed Vendor and Preferred Supplier List accounts. For example in 2008 we secured a three year contract with Caterpillar, a new client for Morson, supplying technical resource to all their UK operations.

Sector Review

Aerospace & Defence

We are the UK leader in the provision of technical personnel and design solutions to the aerospace and defence sectors. This division provides the largest contribution to revenue, accounting for approximately one third of Group revenues and has performed very well throughout 2008.

We provide key resource to our customers who include XPS / BAE Systems, Rolls Royce, Airbus and Bombardier. On the military side we have been particularly busy providing maintenance support for RAF fighter jets at their respective RAF bases. Marine demand created growth at Barrow with work being carried out on Submarines and Frigate Surface Ships. Demand from the Future Aircraft Carriers Alliance increased during the period as the design programmes gained momentum. This benefited our Rosyth branch as it supports their local shipyards. Bombardier also launched a number of programmes which have required support and helped expand our new Belfast operation.

Nuclear, Energy and Process

Within this division the largest contribution comes from the nuclear sector. We provide multi-disciplined project management design and decommissioning engineers along with outage support to many of the UK's major nuclear clients and assets.

Our engineers on assignment provide skills to satisfy the ongoing demand for power generation, maintenance, decommissioning and other programmes. In certain cases new projects have been delayed or downsized as a result of

funding difficulties, constraints or redirection from the Nuclear Decommissioning Authority (NDA) but as time progresses we feel convinced that substantial projects will be initiated.

As a strategic supplier to British Energy, Magnox, Westinghouse and Sellafield we believe that the demand for high quality nuclear engineering support will grow and that Morson is well placed to benefit from new build programmes. We expect current activity to continue 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

Our Rail activity across the UK benefits from supply to our key customers namely Network Rail, Tubelines, Metronet and Transport for London. The majority of our customers' budgeted spend continues to focus on maintenance of the rail infrastructure assets and station refurbishments. Morson provides key engineers across these various projects in signaling, design & commissioning and we are also key suppliers of skilled protection and track operatives. Our investment in training schools positions Morson well to procure and develop a flow of skills for both above and below ground environments and our clients continue to utilise our resource supply chain to support their skilled labour requirements. Again our view is that there will be increased demand for these skills as some significant projects build resource, for example Cross Rail.

Building & Construction

Within this division we have little exposure to residential and commercial property build and this helped the sector to put in a solid positive performance in the year. However this division did experience some downturn in the latter part of the year as consultancies and architects requirements reduced and as Heathrow Terminal Five was completed. Our exposure to the general new build environment is minimal though and therefore did not significantly affect our overall results. We look forward to being involved with the Olympics, Cross Rail, Thames Link and major station refurbishment along with airport extensions, and are aiming to expand our offering into road and highway programmes.

Morson is well positioned with existing customers to secure demand for contractors as and when they are awarded projects. In our view this demand for contract labour will grow. We believe this is underpinned by the positive remarks of the UK Government in their commitment to infrastructure spend to help kick start the economy and secure jobs.

Morson Projects

Morson Projects has made very good progress this year with improvement in our profitability driven by adjusted operating profit margin up to 6.5% from 5.5% (based on gross revenue). This achievement has been helped in part by increases in the mix of workload for highly skilled computer aided design (CAD) personnel often working on cutting edge programmes. Within aerospace the Birmingham and Belfast design centres of excellence have provided key support on high end engineering projects, particularly with regard to design analysis on fuel systems, landing gear and use of composite materials.

For Morson Projects nuclear, power and utility facilities remains a very important and growing market. The competition for providing resources to deliver engineering expertise to existing projects is strong but we continue to grow our market presence. During 2008 we opened a new facility at the Sellafield site (Cumbria) providing vital technical services to our clients in asset registration, management and maintenance. This provides Morson Projects with the ability to expand the services it offers to contracting companies and Sellafield. We believe this facility will continue to be driven by long term expenditure by the Office for Nuclear Development (OND).

Morson Projects' order book remains healthy and there are many design projects for the business to tender for across its core divisions of aerospace and nuclear. We also aim to further expand our offering and have been actively growing our expertise in the electrical power and renewable energy sectors.

Strategy

Our strategy is 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. This has continued to deliver tangible positive results and we always look for the opportunity to add new specialist disciplines to complement and expand our service offering to our customers. This strategy has also assisted in positioning the Group by mitigating some of the risks of exposure to specific sector economic cycles with no over-reliance on one area. We believe that customers and contractors want to deal with experts who are "hands on" and have the knowledge and understanding of the issues prevalent in their specific sector and business area and we have built and continue to build our reputation with the specialist teams we employ.

We have faith in our business model, empowering management to follow a strategy that works and to develop our business with our customers. We are mindful of the current environment and have a flexible cost base. We keep strong control over expenditure and continue to monitor our market leading conversion ratio.

People

Retention of key senior fee earning and support staff remains excellent within the business as the Group's performance affords career progression and security for our staff. The commitment from the Board to appropriate shared ownership and responsibility within Morson empowers the management team in leadership. This assists us in retaining staff and contractors and provides flexibility in reacting to changing markets and in decision making.

Average contractor numbers are a barometer of growth and these increased from 8,900 to 9,300. Importantly our focus and attention to delivering a first class service extends to our contractor community who are ambassadors of our business. We have many loyal, hardworking individuals on assignment who provide a conscientious service time after time. We are particularly proud of the continuous apprenticeship programme within our Morson Projects business and the progression of these young engineers of the future. Their contribution is vital and valued. The Board extends its gratitude to the many engineers, designers and indeed all our contract personnel who play such an important role in providing such a high quality service for Morson and its customers. Finally the Board also wishes to highlight the hard work of all our staff across recruitment, payroll, accounts teams and support staff and thanks them for their outstanding contribution during the year.

2008 Achievements & Outlook

In 2008 we delivered another year of record results in both revenue and adjusted operating profit. Over the last 15 years we have achieved 18% compound growth in revenues and 14% compound growth in net fee income. We have renewed and extended contracts which were up for renewal and in addition we have had new contract wins including:

- Caterpillar
- NG Bailey
- Currie & Brown
- McLaren
- Sellafield (asset surveys and design projects)
- Bombardier Aerospace

The pipeline for business development opportunities remains exciting with prospects across all divisions, many of which we will hopefully convert in 2009.

Our main priority during the current year will be to increase our market share, whilst closely managing our cost base as we seek to maintain our conversion ratio. In 2009 we will benefit from the rollout of our new front office and accounts systems which will streamline processes and provide both Morson and our customers with efficiency gains. Equally credit control will be a key priority for us.

The outlook for 2009 looks promising with several long term frameworks secured and opportunities therefore exist for Morson with our wide ranging customer base creating continued demand for engineering talent.

We are excited by the range of future projects on the horizon. These include: the Airbus A350; Bombardier C Series and the new Learjet 85; London 2012 Olympics; airport extensions; highways and satellite terminals at Heathrow; station refurbishments; Cross Rail; Future CVF aircraft carrier programme; nuclear decommissioning programmes across numerous stations; and more. In our opinion many of these new business projects are underpinned by the Government's commitment to expenditure on major projects. We believe this, combined with a diverse range of clients, our broad technical base and continued strong demand for our engineers means we are well positioned for the year ahead.

FINANCIAL REVIEW

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

Key Performance Indicators

	2008	2007	Variance	
	£'000	£'000	£'000	%
Revenue	431,446	393,979	37,467	+ 9.5%
NFI	36,729	33,661	3,068	+ 9.1%
Adjusted operating profit (see below)	13,532	12,912	620	+ 4.8%
Adjusted profit before tax (see below)	11,747	10,759	988	+ 9.2%
Conversion ratio (NFI to adjusted operating profit)	36.8%	38.4%	(1.6)%	(4.2)%
Adjusted operating profit margin	3.14%	3.28%	(0.14)%	(4.3)%
Interest cover excluding fair value movement and finance income, against adjusted operating profit (see below)	x7.5	x6		
Dividend cover measured against adjusted Earnings Per Share (see note 7)	3.4	2.9		
Average contractor numbers	9,300	8,900	+400	+4.5%

Derivation of key performance indicators from Consolidated Income Statement

	2008	2007
	£'000	£'000
Operating profit	11,280	12,273
Add: amortisation	972	639
Add: exceptional lease variation cost	1,280	-
Adjusted Operating Profit	13,532	12,912
Profit Before Tax	7,902	10,120
Add: fair value of financial instrument	1,593	-
Add: amortisation	972	639
Add: exceptional lease variation cost	1,280	-
Adjusted Profit Before Tax	11,747	10,759

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

	2008	2007	Variance	
	£'000	£'000	£'000	%
Morson International: Recruitment				
Operating profit	12,551	12,496		
Add: exceptional lease variation cost	447	-		
Adjusted Segmental Operating Profit	12,998	12,496	502	4.0
Morson Projects: Design Consultancy				
Operating profit	1,316	1,755		
Add: exceptional lease variation cost	833	-		
Adjusted Segmental Operating Profit	2,149	1,755	394	22.5%

The results for the year show excellent resilience and consistency against a backdrop of what has undoubtedly been a period of uncertainty and downturn in the performance of the general economy. Revenues and profits excluding exceptional item, fair value movement on derivative financial instrument and amortisation have increased as have the average number of contractors, our working capital has been controlled and this applies both to the year in comparison to 2007 and the second six month period in comparison to the first. We have focused on organic growth, which has been carried forward into the new year. Underlying operating margins have been broadly maintained during the year and cash generation has been well controlled and ahead of budget which is pleasing, reflecting determined efforts in this area.

Revenue

2008 has seen revenue increase by 9.5% to £431.4 million (2007: £394.0 million), with no acquisitions in the period (2007: contribution from acquisitions £21.9 million). The majority of the organic revenue growth has been recorded within Morson International, most particularly aerospace and some newer emerging sectors.

Net Fee Income ("NFI")

Group NFI or gross profit has increased to £36.7 million (2007: £33.7 million), a rise of 9.1%. The split of the NFI across temporary recruitment, permanent recruitment and engineering design consultancy was £29.2 million, £1.4 million and £6.1 million respectively (2007: £26.4 million, £2.0 million and £5.2 million).

The Group therefore maintained its percentage gross margin at 8.5% in line with 2007, a pleasing achievement. Within the core operating companies this reflects stable margins in recruitment of 7.5% (2007: 7.6%) and an improved position to 18.4% (2007: 16.2%) within Morson Projects (divisional margins based on gross revenue).

Operating profit and conversion ratio

The Group has always maintained a focus on the underlying operating profit of the business, ensuring that it operates as efficiently as possible. Adjusted operating profit before amortisation and exceptional item increased by £0.6 million to £13.5 million (2007: £12.9 million), an increase of 4.8% on the comparable year. In terms of segmental reporting, recruitment activity under Morson International has seen a rise in adjusted operating profit from £12.5 million to £13.0 million despite some increased bad debt provision and Morson Projects has again performed particularly strongly, with adjusted operating profit growth of 22.5% from £1.8 million to £2.1 million.

Operating margins before amortisation and exceptional item for the Group, which are calculated after shared group costs of £1.6 million (2007: £1.3 million), remained broadly consistent at 3.14% (2007: 3.28%). This is in line with the Board's expectations and is pleasing, particularly after accounting for increased levels of provision against doubtful debts and the ongoing investment required to drive future organic growth.

A measure of efficiency and performance widely used in our market sector is Conversion Ratio measured as the ratio of operating profit before amortisation and exceptional item to NFI. For the Group this year this measure is 36.8% (2007: 38.4%), which the Board feels is an excellent result. Whilst there has been slight impact on this in the period from both operational costs and the decreased mix of permanent revenue activity, this maintains a consistently high performance, confirming our ability to consistently and efficiently deliver services to our clients from a nationwide network of offices.

Exceptional Item

During the year the Group incurred an exceptional charge of £1.3 million relating to the forthcoming move of the Group's Manchester operations into new purpose built premises scheduled for 2010.

The charge relates to the costs of exiting existing leases of £1,189,000 plus a charge of £91,000 resulting from an accelerated depreciation charge on fixed assets on the Group's existing properties. Importantly the cash outflow relating to the exit of existing leases only occurs when the move to the new building takes place.

An Extraordinary General Meeting (EGM) was held on 22 May 2008 which gained shareholder approval for this and the associated circular document and explanation of the estimated costs involved can be found on the website www.morson.com.

Finance Costs

Finance costs incurred in the consolidated income statement this year include two key elements.

Firstly, as in prior periods, there is an interest charge, which in 2008 was £1.8 million, significantly below the comparable charge for the previous year (2007: £2.2 million). The reduction in this charge is a function of bank base rates and good working capital control.

The Group has continued to benefit from a flexible and competitively priced financing facility with cost calculated on bank base rates plus an agreed margin and terms agreed to 31 December 2010. 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. Interest cover for this ongoing core finance charge pre exceptional item and amortisation for the year increased to 7.5 times (2007: 6.0 times).

Secondly, recognised within finance costs on the consolidated income statement is a 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 has thus caused the large negative fair value of the instrument. This is also explained within notes to the consolidated financial statements. This charge is a measure of the movement in the fair value of the derivative financial instrument from the date of arrangement in March 2008 to the balance sheet date. Importantly any interest payable under this instrument is only paid or received quarterly in arrears and is entirely dependent on the actual base rate during that period. Thus the charge in any period will reflect actual

determined interest (paid quarterly in arrears) together with non-cash fair value movements as the term of the instrument unwinds. The operation of this instrument 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.

Adjusted Profit before tax

Adjusted profit before tax has risen by 9.2% to £11.7 million (2007: £10.8 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 £1.0 million (2007: £0.6 million); the exceptional lease variation cost described above of £1.3 million (2007: £nil); and the fair value movement on the derivative financial instrument of £1.6 million (2007: £nil). The directors consider that the measure of adjusted profit before tax gives a meaningful and informative comparator against the prior year's performance. The actual profit before tax after these matters was £7.9 million (2007: £10.1 million). 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 26.3% (2007: 32.1%), lower than the standard rate of tax of 28.5% (2007: higher than standard rate of 30%). 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 decreased to 12.91 pence (2007: 15.26 pence) however adjusted earnings per share (before amortisation of intangible fixed assets, the exceptional lease variation cost and fair value of derivative financial instruments) was 20.64 pence (2007: 16.68 pence).

Share options have been granted during the year and further information will be given within the Remuneration Report contained within the Group's Report and Accounts.

Dividend

The Board has recommended a final dividend of 4.0 pence (2007: 3.9 pence) per share payable on 28 May 2009 to shareholders on the register at 1 May 2009, subject to approval at the annual general meeting on 21 May 2009. An interim dividend of 2.0 pence per share (2007: 1.9 pence) was paid on 24 October 2008, making a total dividend of 6.0 pence per share (2007: 5.8 pence) for the year, an increase of 3.4%. The total dividend is covered 2.2 times (2007: 2.6 times) by current year earnings.

Cash flow and financing

Given the nature of our business the organic growth we have experienced during the year has necessarily caused the absorption of cash. Notwithstanding this, management of the various working capital balances during the period has been good. Net cash generated by operating activities (before tax and interest) was £15.7million (2007: £4.4 million). This represents a conversion of 116% of adjusted operating profit (2007: 34%). Tax paid rose from £3.0 million to £3.4 million in line with the growth in adjusted profit before tax. During the year, working capital decreased by £1.7 million (2007: increased by £9.3 million), an excellent result, connected principally to good cash collection achieved at the year end and an increase in Trade Payables caused by short term timing differences in payments to contractors. Indeed an indicative calculation counting revenue plus closing rate VAT back into Trade and Other Receivables gives debt turn at the year end of 56 days (2007: 58 days). Capital expenditure at £1.0 million (2007: £0.4 million) was as expected above a rather low 2007 comparator.

As reported last year the core finance facility the Group employs is invoice discounting. This is designed to 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 the norm used by companies providing similar services and is one that suits the Group's business model very well. As previously reported we have a close working relationship with our provider and increased the size of this facility in 2007 when we also agreed costs on a bank base rate plus margin basis to December 2010. 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 (2007: £3 million utilised) as there was plenty of capacity within the Invoice Discounting facility.

Balance sheet

Net assets have increased to £52.9 million (2007: £50.0 million). This increase principally reflects the impact of the retained profit for the year. Net bank debt at the year end was £27.7 million (2007: £34.5 million).

**CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Unaudited £'000	2007 £'000
CONTINUING OPERATIONS			
REVENUE	2	431,446	393,979
Cost of sales		(394,717)	(360,318)
GROSS PROFIT	2	36,729	33,661
Amortisation of intangible fixed assets		(972)	(639)
Exceptional lease variation cost	3	(1,280)	—
Other administrative expenses		(23,197)	(20,749)
OPERATING PROFIT	2	11,280	12,273
Finance income		27	13
Fair value movements on derivative financial instrument		(1,593)	—
Finance cost	4	(1,812)	(2,166)
PROFIT BEFORE TAXATION		7,902	10,120
Taxation	5	(2,076)	(3,251)
NET PROFIT FOR THE YEAR	3	5,826	6,869
Attributable to:			
Equity holders of the parent		5,807	6,874
Minority interest		19	(5)
		5,826	6,869
EARNINGS PER SHARE			
From continuing operations			
Basic (pence)	7	12.91	15.26
Diluted (pence)	7	12.82	15.08

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
AT 31 DECEMBER 2008**

	Note	2008 Unaudited £'000	2007 £'000
NON-CURRENT ASSETS			
Goodwill		32,945	32,945
Other intangible assets		1,961	2,933
Property, plant and equipment		2,352	2,263
Deferred tax asset		474	—
		37,732	38,141
CURRENT ASSETS			
Trade and other receivables		75,583	74,005
Cash and cash equivalents		120	481
		75,703	74,486
TOTAL ASSETS		113,435	112,627
CURRENT LIABILITIES			
Trade and other payables		(29,568)	(25,179)
Current tax liabilities		(1,383)	(1,682)
Deferred tax liabilities		—	(116)
Obligations under finance leases		(171)	(190)
Bank overdrafts and loans	8	(27,801)	(34,936)
Derivative financial instrument		(1,593)	—
		(60,516)	(62,103)
NET CURRENT ASSETS		15,187	12,383
NON-CURRENT LIABILITIES			
Deferred tax liabilities		—	(400)
Obligations under finance leases		—	(90)
		—	(490)
TOTAL LIABILITIES		(60,516)	(62,593)
NET ASSETS		52,919	50,034
EQUITY			
Issued capital	9	2,267	2,267
Share premium account	9	37,607	37,607
Retained earnings	9	13,520	10,310
Other reserves	9	(526)	(182)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		52,868	50,002
Minority interest		51	32
TOTAL EQUITY		52,919	50,034

**CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Unaudited £'000	2007 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	10	10,548	(853)
INVESTING ACTIVITIES			
Interest received		27	13
Proceeds on disposal of property, plant and equipment		77	42
Purchases of property, plant and equipment		(1,007)	(409)
Acquisition of subsidiaries		(105)	(8,565)
NET CASH USED IN INVESTING ACTIVITIES		(1,008)	(8,919)
FINANCING ACTIVITIES			
Dividends paid		(2,657)	(2,207)
Repayments of borrowings		(3,000)	—
New bank loans raised		—	3,000
Repayments of obligations under finance leases		(109)	(180)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES		(5,766)	613
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,774	(9,159)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(31,455)	(22,296)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(27,681)	(31,455)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

Morson Group PLC is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is Stableford Hall, Monton, Eccles, Manchester M30 8AP. 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 2009.

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007. The financial information for the year ended 31 December 2007 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 2008 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 International Financial Reporting Standards ("IFRSs"). The financial statements will also be prepared in accordance with IFRS, adopted by the EU and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

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 2007 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 does consider business risks and uncertainties that exist and takes account of how wider economic circumstances can impact these. It includes 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 December 2010 for its invoice discounting facility and 31 March 2011 for its revolving credit facility.

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

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions, firstly specialist recruitment activity and secondly engineering design and management consultancy. These divisions are the basis on which the Group reports its primary segment information.

	Provision of temporary and permanent recruitment services		Provision of engineering design consultancy and management		Total	
	2008 Unaudited £'000	2007 £'000	2008 Unaudited £'000	2007 £'000	2008 Unaudited £'000	2007 £'000
Gross revenue	408,652	373,258	33,078	32,180	441,730	405,438
Inter-segment sales	(9,872)	(11,023)	(412)	(436)	(10,284)	(11,459)
Revenue to third parties	398,780	362,235	32,666	31,744	431,446	393,979
Segmental gross profit	30,632	28,439	6,097	5,222	36,729	33,661
Administrative expenses	(17,634)	(15,943)	(3,948)	(3,467)	(21,582)	(19,410)
Exceptional lease variation cost	(447)	—	(833)	—	(1,280)	—
Amortisation of intangible assets	—	—	—	—	(972)	(639)
Shared costs	—	—	—	—	(1,615)	(1,339)
OPERATING PROFIT	12,551	12,496	1,316	1,755	11,280	12,273
Finance charge (net)					(3,378)	(2,153)
PROFIT BEFORE TAXATION					7,902	10,120
Taxation					(2,076)	(3,251)
PROFIT AFTER TAXATION					5,826	6,869
Capital additions	515	274	492	225	1,007	499
Depreciation and amortisation	1,342	915	504	361	1,846	1,276
NET ASSETS						
Segment assets	81,679	77,282	12,906	11,273	94,585	88,555
Segment liabilities	(50,279)	(52,922)	(10,328)	(7,882)	(60,607)	(60,804)
Unallocated corporate assets and liabilities (net)					18,941	22,283
Consolidated net assets					52,919	50,034

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.

3. PROFIT FOR THE YEAR

	Continuing operations	
	2008 Unaudited £'000	2007 £'000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	874	637
Foreign exchange gains	(67)	-
Profit on disposal of fixed assets	(33)	(10)
Amortisation of intangible assets	972	639
Staff costs	19,140	18,648
Exceptional lease variation cost	1,280	-
Impairment losses recognised on trade receivables	744	913

£1,280,000 has been provided in accordance with the resolution passed at the EGM of 22 May 2008 for Morson Human Resources Limited and Morson Projects Limited to enter into Deeds of Variation (for the two key properties of Stableford Hall and Darwen House respectively) and for Morson Group PLC to enter into an agreement for the new lease of the property at Centenary Way.

The cost directly associated with the variation of the existing leases is £1,189,000 and has been provided in full. A further £91,000 has been recognised as a result of the accelerated depreciation charge for fixed assets relating to existing properties.

4. FINANCE COSTS

	Continuing operations	
	2008 Unaudited £'000	2007 £'000
Interest on bank overdrafts and loans	1,653	2,111
Interest paid in respect of the financial instrument	80	—
Other financing charges payable	56	34
Interest on obligations under finance leases	23	21
Total finance costs	1,812	2,166

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

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

5. TAX

	Continuing operations	
	2008 Unaudited	2007
	£'000	£'000
Current tax	3,415	3,237
Adjustments in respect of prior period	(349)	15
Deferred tax – current year	(837)	-
- prior year	(153)	(1)
	2,076	3,251

Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year.

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

	2008 Unaudited	2007
	£'000	£'000
Profit before taxation	7,902	10,120
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	2,252	3,036
Expenses not deductible for tax purposes	337	206
Income not taxable	(14)	(56)
Adjustments to tax charge in respect of prior periods	(502)	14
Other	3	51
Tax expense for the year	2,076	3,251

In respect of prior periods an element of the current year adjustment relates to the recognition of Research & Development tax credits.

6. DIVIDENDS

	2008 Unaudited	2007
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2007 of 3.9 pence per share (2006: 3.0 pence)	1,758	1,351
Interim dividend for the year ended 31 December 2008 of 2.0 pence per ordinary share (2007: 1.9 pence)	899	856
	2,657	2,207
Proposed final dividend for the year ended 31 December 2008 of 4.0 pence (2007: 3.9 pence)	1,792	1,758

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:

	2008 Unaudited £'000	2007 £'000
Profit for the year used for the calculation of basic earnings per share	5,807	6,874
Amortisation of intangible assets	972	639
Exceptional lease variation cost	1,280	—
Fair value movements on derivative financial instruments	1,593	—
Tax effect of adjustments at 28.5% (2007: 30%)	(365)	—
Earnings for the purposes of adjusted earnings per share	9,287	7,513

	2008 Unaudited	2007
NUMBER OF SHARES		
Weighted average number of ordinary shares for the purposes of basic earnings per share	44,996,656	45,036,373
Effect of potentially dilutive ordinary shares:		
Share options	314,067	539,261
Weighted average number of ordinary shares for the purposes of diluted earnings per share	45,310,723	45,575,634
Earnings per share		
– basic (pence)	12.91	15.26
– diluted (pence)	12.82	15.08
Adjusted earnings per share		
– basic (pence)	20.64	16.68
– diluted (pence)	20.50	16.49

The adjusted earnings per share has been calculated on the basis of continuing operations before amortisation of intangible assets, the exceptional lease variation 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

	2008 Unaudited £'000	2007 £'000
SECURED BORROWING AT AMORTISED COST		
Bank overdrafts	27,801	31,936
UNSECURED BORROWING AT AMORTISED COST		
Bank loans	-	3,000
The borrowings are repayable as follows:		
On demand or within one year	27,801	34,936

	2008 %	2007 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	5.55	6.36
Bank loans	7.07	6.89

All borrowings are in Pounds Sterling and are arranged at floating rates, thus exposing the Group to cash flow interest rate risk however hedging arrangements are explained below:

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 £27,801,000 (2007: £31,936,000) have been secured on the trade debtors of the Group. The average effective interest rate on bank overdrafts approximates 5.55% (2007: 6.36%) per annum.
- (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 Company may repay all, part of or borrow more up to the ceiling.

At 31 December 2008, the Group had available £28,200,000 (2007: £18,063,000) 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
AT 1 JANUARY 2007	2,267	37,607	5,586	(219)	45,241
Retained profit for the year	—	—	6,874	—	6,874
Dividends paid	—	—	(2,207)	—	(2,207)
Share-based payments	—	—	94	—	94
Exercise of share options	—	—	(37)	37	—
AT 31 DECEMBER 2007	2,267	37,607	10,310	(182)	50,002
At 1 January 2008	2,267	37,607	10,310	(182)	50,002
Retained 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	—
AT 31 DECEMBER 2008 (UNAUDITED)	2,267	37,607	13,520	(526)	52,868

Investments in “own shares” to a value of £146,000 (2007: £182,000) are held by Morson Employee Benefit Trust Ltd to satisfy options awarded on 1 March 2006 under an Enterprise Management Investment Scheme equally to three senior employees who are not statutory Directors of the Company or a Group Company.

During the year 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 £380,000 have been made to this Trust during 2008 and these have been used exclusively to buy Morson Group PLC shares. As at 31 December 2008 the trust held 325,000 ordinary 5p shares in Morson Group PLC and no other securities or investments. There have been no additional purchases or sales of shares since 31 December 2008 to the date of this report. 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

	2008 Unaudited £'000	2007 £'000
Operating profit	11,280	12,273
Adjustments for:		
Exceptional lease variation cost (accelerated depreciation amount included in depreciation line)	1,189	—
Depreciation of property, plant and equipment	874	637
Amortisation of intangible assets	972	639
Share-based payment expense	96	94
Gain on disposal of property, plant and equipment	(33)	(10)
Operating cash flows before movements in working capital	14,378	13,633
(Increase)/decrease in inventories	(372)	168
Increase in receivables	(1,206)	(6,248)
Increase/(decrease) in payables	3,292	(3,198)
Purchase of own shares	(380)	-
Cash-generated by operations	15,712	4,355
Income taxes paid	(3,432)	(3,042)
Interest paid	(1,732)	(2,166)
Net cash generated from/(used in) from operating activities	10,548	(853)

11. COPIES OF THIS STATEMENT

The Group's report and accounts for the year ended 31 December 2008 are expected to be posted to shareholders on 22 April 2009 and will also be available from the Company's head office at Stableford Hall, Monton, Eccles, Manchester M30 8AP and will be available to download from its website at: www.morson.com