



Morson Group PLC
("Morson" or "the Group")

Preliminary results for the year ended 31 December 2010

Morson (AIM: MRN.L), the UK's leading provider of technical engineering personnel and project design solutions, supplying over 10,000 highly skilled 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 2010.

Financial Highlights

Solid trading performance across the Group aided by our focus on core activities:

- Group revenues up 4.8% to £457.6 million (2009: £436.6 million);
- Group net fee income (gross profit) up 0.9% to £35.1 million (2009: £34.8 million);
- profit before tax down 2.9% to £9.4 million (2009: £9.7 million);
- profit after tax up 3.9% to £7.5 million (2009: £7.2 million);
- adjusted profit before tax down to £8.1 million (2009: £10.8 million)[†];
- adjusted basic earnings per share down 23.9% to 14.06 pence (2009: 18.48 pence)[†]; and
- basic earnings per share down 2.4% to 15.69 pence (2009: 16.07 pence).

Business Highlights

- Continued resilience across the Group.
- Average contractor numbers placed with clients up 12% to 10,200 (2009: 9,100).
- Two acquisitions completed and fully integrated into the Group during the year, including the Group's largest ever acquisition, the business and assets of Wynnwith Group Limited.
- Core markets remain strong and current trading is in line with Directors' expectations.
- Proposed final dividend of 4.0 pence per share (2009: 4.0 pence) bringing the total dividend for the year to 6.0 pence (2009: 6.0 pence).

[†] Before amortisation of £620,000 (2009: £1,222,000), exceptional gain on acquisition of businesses £1,249,000 (2009: £nil), exceptional restructuring costs £404,000 (2009: exceptional head office relocation cost £434,000) and fair value gain regarding the derivative financial instrument £1,063,000 (2009: 530,000)

Commenting on the outlook Gerry Mason, Non Executive Chairman, said:

"Our order book for managed vendor opportunities in 2011 and 2012 remains strong. Morson has a market leading position in the UK within the Aerospace, Nuclear and Rail markets and we continue to look into expanding into other complementary areas with a particular focus on overseas markets and permanent business. Whilst we expect trading through 2011 to remain challenging, these qualities position the Group well to increase its market share as the economy recovers. In due course there is significant opportunity to see growth in these areas and this, coupled with new customer gains, will further strengthen our enviable client portfolio.

Our strategy for 2011 is to focus on our core strengths, develop new sectors and revenue streams and select new geographic locations that will put the Group in a strong position through these unique and uncertain market conditions. We are capitalising on our strong brand image and competitive advantages and will continue to leverage our unique client base.

The Board views Morson's prospects for the coming year with confidence."

For further information please contact:

Morson Group plc Ged Mason, CEO Paul Gilmour, Group Financial Director	0161 707 1516
Brewin Dolphin Investment Banking (Nomad) Matt Davis Nikki Cooper	0845 213 4730
Buchanan Communications Diane Stewart, James Strong, Carrie Clement	020 7466 5000

CHAIRMAN'S STATEMENT

INTRODUCTION

During the year under review I am pleased to report that Morson Group PLC ("Morson" or "the Group") has performed well and continued to demonstrate the inherent resilience and strength of the Morson business model, which has enabled our businesses to deliver another set of solid results. These have been achieved against an ongoing backdrop of a very challenging market and in spite of the severity of some of the recent cut-backs announced in the Strategic Government Defence Review (SGDR). This, as previously announced, has resulted in specific loss of business from certain areas within aerospace, most particularly affecting 2011.

Our core market positions remain strong. During the year we enhanced these with the largest acquisition yet made by the Group of the business and assets of Wynnwith Group Limited ("Wynnwith") in June 2010, resulting in a net gain on the transaction of £1,274,000. Further details of this acquisition are given below but I am pleased to report that the integration of this business has been a major aim and achievement of the second half of the year. Whilst not contributing to Group operating profits before exceptional items in 2010, we look forward to Wynnwith delivering profits moving forward, contributing to wider growth opportunities and increasing the Group's market share when economic improvement comes through.

RESULTS

Key financial and business highlights include:

Financial Highlights

Solid trading performance across the Group aided by our focus on core activities:

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- Group net fee income (gross profit) up 0.9% to £35.1 million (2009: £34.8 million);
- profit before tax down 2.9% to £9.4 million (2009: £9.7 million);
- profit after tax up 3.9% to £7.5 million (2009: £7.2 million);
- adjusted profit before tax down to £8.1 million (2009: £10.8 million)[†];
- adjusted basic earnings per share down 23.9% to 14.06 pence (2009: 18.48 pence)[†]; and
- basic earnings per share down 2.4% to 15.69 pence (2009: 16.07 pence).

Business Highlights

- Continued resilience across the Group.
- Average contractor numbers placed with clients up 12% to 10,200 (2009: 9,100).
- Two acquisitions completed and fully integrated into the Group during the year, including the Group's largest ever acquisition, the business and assets of Wynnwith Group Limited.
- Core markets remain strong and current trading is in line with Directors' expectations.
- Proposed final dividend of 4.0 pence per share (2009: 4.0 pence) bringing the total dividend for the year to 6.0 pence (2009: 6.0 pence).

[†] Before amortisation of £620,000 (2009: £1,222,000), exceptional gain on acquisition of business £1,249,000 (2009: £nil), exceptional restructuring costs £404,000 (2009: exceptional cost re Head Office relocation £434,000) and fair value gain on the derivative financial instrument £1,063,000 (2009: 530,000)

STRATEGY

A key foundation for Morson in 2010 has been the Board's focus on core capabilities and delivering the underlying Group strategy, including:

- maintaining our market position in core sectors of Aerospace and Defence, Nuclear Energy and Process and Rail and Transport;
- starting to exploit the potential of the new Head Office facility;
- investment into new areas and services, for example in overseas locations;
- ongoing review of all overhead areas, reflecting changing business levels, to improve efficiencies;
- appropriate headcounts and direct spend reduction; and
- acquisitions which deliver future growth opportunities.

In order to deliver our strategy, it was important for us to take action during the year to drive profitability throughout the business to protect operating margins. However we also made and continue to make a measured commitment to the investment which the Board believes is necessary to build the Group in preparation for the next cycle of growth, despite the uncertainty we face within the current economy.

There are a number of positive factors that will drive this momentum over the coming years, which include engineering and technical skills shortages, increased demand for flexible employment and new client opportunities in terms of sectors supplied and contractor disciplines.

We feel that in the UK and globally, the demand for power will drive the energy market forward inexorably and an element of this, whilst acknowledging the current global focus on this area with the unfortunate events in Japan, will create a nuclear renaissance requiring significant demand for expertise, talent and innovation, which we are well placed to support. Both Morson International and Morson Projects have a strong position and history in providing specialist design solutions and unique engineering skills to nuclear and power new build, maintenance and decommissioning project design and management. We have excellent relationships with key companies in this sector, such as British Energy (EDF), Sellafield and National Grid.

During 2011 we will be actively looking to increase our network of overseas offices and contracts building on the 2010 expansion that saw subsidiaries in Brazil, Colombia, Germany and Italy added to the Group. We aim to achieve this through our existing client base and developing new international opportunities through our Business Development Team.

Morson Projects remains a differentiating aspect of our client offering and reinforces our understanding of many of our client's requirements. Our work with Bombardier on the Learjet programme has been one that has engaged our engineers in challenging and innovative areas of composite design, building skill sets and expertise through the use of pioneering composite material in this 21st century project.

ACQUISITIONS

During the period we have acquired the trade and assets of Acetech Personnel Limited ("Acetech") and the trade and assets of Wynnwith Group Limited ("Wynnwith").

Acetech was the acquisition of the business and assets of Babcock International Group PLC's ("Babcock") "in-house" provider of temporary skilled trades within UK Marine, Defence and Rail divisions. Morson had and maintains an established position with Babcock as one of their largest suppliers of technical skills, in particularly within Nuclear. This acquisition helps cement the relationship with a key market leader in the engineering sector, whose areas of activity and expertise align very well with those of Morson and thus gives us opportunities to further develop our footprint within the enlarged Babcock group, which has subsequently grown substantially through its own acquisition of VT Services.

Wynnwith was a great opportunity identified and taken by Morson. Here we acquired, via a controlling stake in a joint venture company, Morson Wynnwith Limited, the business and assets of Wynnwith Group Limited that had passed into administration. The Group and fellow shareholders of Morson Wynnwith Limited were uniquely well placed to negotiate for the business. A high level of expertise was prevalent in our bid team and we have no doubt that this and the strength of the wider Morson Group added to the quality of our bid and our business case. I am pleased to report that a gain has been realised on this transaction as the price negotiated was lower than the subsequently assessed accounting fair value of the assets acquired.

Wynnwith was a long-standing competitor which had long term contracts operating in predominantly Aerospace and Defence markets and an excellent brand and reputation. We secured the business activity in such a way as to ensure continuity to clients and contractors and this has strengthened and expanded Morson's client base. During 2010 we focused on restructuring and integrating Wynnwith with Morson Group policies and operations and realigned its cost base. In February 2011 we announced the acquisition of the remaining minority stake for consideration of £4.0 million, bringing the business entirely within the Group. We are confident going forward that the business acquired will consolidate our future position and produce a favourable return on our investment.

PEOPLE

On behalf of the board I would like to take this opportunity to thank all management and staff during these difficult and unprecedented market conditions for their loyalty, support and hard work during this past trading period.

We really have an exceptional workforce across all our areas of the business. In a services sector, human resource focused business it is rare to have so many long term employees committed to and enhancing the quality of the services we provide. I

would also like to warmly welcome Wynnwith and Acetech staff to the Group. I firmly believe if we all remain focused and determined we will grow stronger and even more resilient during the coming years.

DIVIDEND

The Board proposes payment of a final dividend of 4.0p resulting in a full year dividend of 6.0p per share. This is in line with last year, which demonstrates the Board's confidence in the future prospects for the Group.

PROSPECTS AND OUTLOOK

Our business development pipeline for managed vendor opportunities remains strong. We have market leading UK positions within the Aerospace, Nuclear and Power and Rail markets and are looking to expand into other complementary areas including overseas markets and permanent business. Whilst we expect trading through 2011 to remain challenging, these qualities position the Group well to increase its market share as the economy recovers. In due course there is significant opportunity to see growth in these areas and this, coupled with new customer gains, will further strengthen our enviable client portfolio.

Following the Government's review of defence spending, it is clear that its funding on certain defence programmes will be at lower levels. However the review also provides clarity and certainty on a number of other projects that we now know will require our engineering manpower. These include the Queen Elizabeth and Prince of Wales aircraft carriers, helicopter maintenance and transport infrastructure such as Crossrail and Regional Rail Upgrades.

The majority of Morson's business is focused on the private sector, where the recovery is more likely to occur in the medium term. Here there are some exciting projects that include the civil aviation emphasis on design change to improve fuel efficiency, Nuclear and Power investment and planning and a general return of our clients to growing their business lines once more requiring our support, capability and market knowledge.

Our strategy for 2011 and beyond is to drive profitability through a focus on our core strengths, develop new sectors and revenue streams and select new geographic locations that will put the Group in a strong position through these unique and uncertain market conditions. We are capitalising on our strong brand image and competitive advantages and will continue to leverage our unique and outstanding client base.

The Board views Morson's prospects for the coming year with confidence.

GERRY MASON
NON EXECUTIVE CHAIRMAN

BUSINESS REVIEW

INTRODUCTION

Morson operates through two main business areas:

Recruitment

Morson Human Resources Limited, trading as Morson International, and Morson Wynnwith Limited, provide recruitment solutions across a range of technical and engineering industries. Together they recruit for a wide variety of roles including technical, non-technical, manual, skilled trades and professional. The principal business activity is the supply of temporary staffing solutions, which are offered through a number of models including recruitment process outsourcing, managed and neutral vendor contracts and ad hoc or "spot" supply. In addition, we recruit for permanent staff roles across professional technical disciplines and have a dedicated search and select team.

Engineering Design Consultancy

Morson Projects Limited provides outsourced engineering design and engages over 600 personnel housed within modern, fully equipped offices, utilising the latest design technology. We offer an innovative and complementary service to our clients in a committed, partnership environment. Morson Projects' engineering capability enables it to offer complete multi-disciplined project management services led by suitably qualified and experienced personnel.

Morson International, Morson Wynnwith and Morson Projects work both as separate businesses and collaboratively to deliver the highest standards of service to our clients. Examples of high profile projects that this collaborative partnership approach has been deployed on include; the Joint Strike Fighter, nuclear design projects at Sellafield site, Airbus A380 and Bombardier Learjet. We are committed to 'Best Practice' and continuous improvement throughout the business, helping us to provide and develop the high quality of these services.

The Group operates within the Rail, Power, Aerospace, Defence, Nuclear, Telecommunication ("Telecoms"), Marine, Oil & Gas and Automotive sectors, but also supplies engineering skills to many other niche markets. We work across the UK in 35 locations (being 25 stand alone branches and 10 offices co-located at client sites), from Thurso to Plymouth, and internationally through a strategic network of 7 overseas offices in Italy, Germany, South Africa, Serbia, Brazil, Colombia and Australia.

MARKET REVIEW AND POSITION

The world has been operating through an extended recessionary period. The Group does have an acknowledged bias towards the UK, which accounts for approximately 95% of revenues. Thus the UK recession has affected most of our markets and our public and private sector clients. Morson has sought to successfully navigate these conditions by focusing on our core capabilities, offering our clients value and cost savings through supply chain rationalisation and reducing our own costs and flexing resources to meet demand. At the same time we continue to make balanced investments in new overseas operations and contracts which offer future growth potential including areas such as Europe, South America, Africa and others. We have strong capability in a number of robust markets where candidate quality is a significant determinant for selection. The Group remains well placed with a broad range of sector exposure and end-client activities, for example maintenance of nuclear and rail asset infrastructure, which lend a high degree of resilience to the business.

The recession provides opportunities for strong businesses to reinforce their market position and this is what we have achieved over the year. We have concentrated our resources on the more resilient parts of the market and have developed our services to ensure that they are relevant to our clients in an evolving marketplace. This has allowed us to continue to grow parts of our business despite the prevailing economic backdrop and lost contracts causing decline in some sectors. Our aerospace and defence sector, for example, grew revenues by 6%.

Within Recruitment our focus has always been on that of temporary rather than permanent and this will remain so. This has helped our performance through the recession as permanent recruitment is a more cyclical area of business. However we see opportunity in a recovering market, and with some of the skill-sets acquired with the Wynnwith transaction, aim to do more in the permanent area and hence to increase the contribution from this activity.

In the UK we have niche positions in numerous markets and have a market leading share in our chosen core sectors of Aerospace, Nuclear and Rail. We have 35 offices in the UK representing, in our view, the most comprehensive and well-placed coverage amongst all our competitors. This is a conscious approach giving access to several UK client national accounts where our business is a natural market leader as well as to local business communities. We will continue to invest in management and deepen our skill base, to position emerging sectors of the group for growth and review unrepresented geographic areas.

SECTOR REVIEW

Morson International and Morson Wynnwith: Provision of Temporary and Permanent Recruitment Services

The Group's temporary and permanent recruitment segment contributes 91.8% of Group sales and 81.1% of Net Fee Income (gross profit, "NFI"). We have seen the segment deliver a 4.6% growth in net revenue (revenue to third parties) to £420.2 million (2009: £401.8 million) however a difficult trading environment has seen gross margin reduce to 6.8% (2009: 7.0%) delivering gross profits of £28.5 million (2009: £28.1 million) (segment gross margins are based on net revenue).

Aerospace and Defence

Our largest sector which accounts for approximately 40% of the Group's revenues, has again delivered a very good performance, benefiting from core substantial agreements with Xchanging/BAE Systems, Airbus and Thales and following the acquisition of Wynnwith, with GKN and Finmeccanica Group. Morson's strength in this sector is its capability that spans both military and civil aircraft programme development.

However the effect on our clients' budgets which resulted from the Government's defence spending review in late October had an immediate impact on contractor numbers. Most particularly we experienced a significant downturn from the unexpected cancellation of the NIMROD and Harrier programmes. This has clearly affected the outlook for military aerospace business in the forthcoming period. However, our presence in this area is still very substantial and BAE Systems has many business strands and activities that include overseas customers, the Queen Elizabeth and Prince of Wales Carriers, Land and Marine Systems as well as its core ongoing requirements for the UK military, all of which require manpower support.

The civil aerospace market is very competitive and investment into new "green" technologies to deliver savings on fuel via weight reduction and improved design is very prevalent in our clients' thinking. This and the need for reduced engine maintenance provide a driver for investment in engineering research and development, which is a fundamental requirement for them. Morson has extensive experience of providing these skills and is working with clients in the enhancement and modification of existing and conceptual aircraft and engine programmes.

Nuclear Energy and Process

The second half of 2010 showed a reduction in revenue due to our Magnox contract falling away, a contract lost on price grounds. Aside from this we experienced broadly steady levels of activity in this sector during the year. The UK nuclear new build programme has been initiated, albeit as expected at low activity levels in these planning stages and with varying degrees of urgency, by some of the major national and international power providers and consortia which have been set up to bid for and deliver power to the market. Morson is well placed to aim for preferred supplier status with these as they develop and has already secured contracts with EDF Energy and Horizon Nuclear.

Looking forward we would acknowledge that the current unfortunate events in Japan might give cause for contemplation and reassessment of the nuclear option. However several countries have already reconfirmed their nuclear programmes are to continue and we feel that for the UK's energy security it will be necessary to have a strategic proportion of that supply provided via nuclear power.

Morson also historically has relationships with many of the "tier one" suppliers, i.e. companies who will undertake large contracts for civil and engineering build and delivery for the station operator, and has been providing engineering talent in this field for over 30 years. For example Morson supplied over 400 engineers over the project life of the last PWR nuclear plant to be built at Sizewell and is geographically very well placed, with our branch network in close proximity to all planned sites, to take advantage of the emerging energy markets. The potential for growth in this sector is evident and increasing and will result in demand for specialised human capital and also the engineering consultancy services we provide through Morson Projects, with the timing dependent on government and wider macro economic factors.

At present the maintenance of existing power stations and their output is also key to the UK and this activity must continue through any build cycle, before turning into decommissioning work. Morson aims to play an important role in the support, maintenance, new build and eventual decommissioning of the UK's current and future nuclear power capability.

Rail and Transport

The Group provides expertise and workforce resource solutions to both the London Underground and the national overground networks. Activity under our core framework contracts has been slightly suppressed over the period, particularly affected by the loss of the "Trackforce" contract with Metronet as previously highlighted.

Within the London Underground environment there has been a period of change as Transport for London ("TfL") has consolidated some operations previously let under Metronet and Tubelines operations. We are pleased to advise that during 2010 we have bid for and been awarded renewed contracts to extend our supply into this wider business. We provide both a variety of white collar engineering skills and also the hands on skills of track workforces, safety critical resource and other track maintenance and renewal skills.

Overground activity with Network Rail has been at a low level. However we believe this is set to increase via maintenance works spend and also the London Crossrail project. We continue to promote our market position in this area and have gained through 2010 the addition of contracts to support Babcock Rail and Thales. The Wynnwith acquisition also adds to several other client relationships within the rail sector that we aim to develop.

Morson Projects: Provision of Engineering Design Consultancy and Management

Morson Projects is the Group's engineering and design consultancy business and contributes 8.2% of Group sales and 18.9% of Net Fee Income. Morson Projects has delivered a 7.6% growth in net revenue however again due to a difficult trading environment has seen gross margin reduce to 17.7% (2009: 19.3%) delivering gross profits of £6.6 million (2009: £6.7 million).

The key contracts in the Aerospace sector have been on the Bombardier Learjet 85 and the Airbus A350 and work in these areas continues into 2011. The work on these contracts has allowed Morson Projects to create one of the UK's largest teams of composite design specialists, which positions the company well for the industry's continuous progression to lighter airframes and thereby more fuel efficient aircraft. A key client EADS has selected Morson as part of its reducing supply chain, which positions the business well to meet EADS' target of greater outsourced work packages.

One of the strengths of Morson Projects' business model is the multi industry exposure which allows complementary skills to be used to support peak demands across the two core markets of Aerospace and Nuclear. The sales growth in 2010 has also required further recruitment of staff and in particular of graduates, which represents a long term strategic investment to support the anticipated future demand for technical engineering talent.

Key framework agreements and contracts with Sellafield, Alstom, Siemens and Regional Electricity Companies continue to supply many repeat project opportunities, which positions us well for the UK planned Nuclear New Build (NNB), renewable energy focus and the resulting power infrastructure upgrades.

Alongside the focus on supporting the UK's demand, Morson Projects have also won projects during the past 12 months in Germany, France, Sweden, Denmark, Canada, US and South Korea, which demonstrates a global competitiveness and demand for our highly skilled resources and project solutions.

Other Markets

The Group continues to provide to and look to expand into a number of other markets that hold potential for future growth. For example we are increasing our provision of information and communication technology ("ICT") contractors to our UK client community and the Telecoms market holds potential with customers who have global overseas operations. Telecoms Operations commenced during 2010 in Brazil and Colombia and in early 2011 in South Africa. Other overseas investment opportunities and regions are being explored, for example we opened an office in Hamburg, Germany to support European Aerospace activity. In the period the total revenues attributable to all overseas activities were relatively minor at £24.0 million, however collectively we expect these to grow through 2011 and beyond.

MORSON GROUP STRATEGY

Strategy

The Group's existing strategic aim is to focus on our core technical market, retaining existing market leading positions, whilst expanding sector spread and niche expertise. Our Recruitment and Engineering Consultancy segments complement each other and give us great understanding of our clients' needs. We continue to seek to grow organically and will consider acquisition opportunities that fit with our business and strategic aims.

Client Satisfaction

Long term partnerships are the foundation of Morson's business, so the need to build and maintain strong relationships with clients is of great importance. Some of the Group's client relationships extend beyond thirty years and this has given us a deeper understanding of their needs, helping them and us to deliver projects and services that exceed expectations.

Morson's approach is to look at how we can best serve our clients, and often their customers too, while ensuring we provide a competitive and high quality service. This requires an intimate knowledge of our clients' working environment, their priorities and aspirations and of course the technical recruitment and engineering design market.

Morson regularly collects feedback at both the project delivery, service and contractor level using a variety of techniques including inherent key performance indicators, proactive client spend information, feedback forums and for larger accounts, face to face client surveys.

Organic Growth

Our markets continue to offer good opportunities and our new sales performance in 2010 was solid. However, due to the prevailing economic conditions it was more difficult to secure additional revenues from existing clients.

Our central business development team pursues complex, long term contracts which bring together a wide range of the Group's skills and generate high quality and recurring revenues. Securing and renewing major contracts is an important component of our growth.

Investment

Targeted, measured and controlled investment is always necessary to seek to grow income streams. This is done on a wide variety of scales throughout the business. Some examples of these investments include:

- new, improved or expanded office infrastructure, in the UK or abroad;
- commitment to graduate recruitment and staff training;
- latest version CAD (Computer Aided Design) software and hardware;
- bespoke communication and management systems platforms;
- commitment to attract, retain and develop talented individuals; and
- development of new service offerings or sector expansion.

OUR PEOPLE

We are very proud of our colleagues who are our most important assets, being the drivers of profitability, growth and performance within our business. We recognise that our staff must be well motivated and experienced and we encourage participation and career progression at all levels. Through this we will continue to deliver the service that our clients expect and deserve. We ensure our employees remain motivated by providing a strong support network, offering learning and development

opportunities and providing performance-based bonus schemes. We have won and been nominated for several awards and we are pleased to be able to reward long serving members of staff. This year saw ten 10 year, one 20 year and one 30 years service awards. We firmly believe our success flows from the commitment and energy of all our colleagues who "go that extra mile".

Morson is committed to quality of service and the satisfaction of the clients it serves. We strive for the highest standards of service excellence at all times. Long term client relationships include BAE Systems (30 years), British Energy (24 years) and Rolls Royce (18 years) and over 70% of our major (largest 25) client base have been with us for more than 10 years. This demonstrates the innovation, evolution and understanding with which we have provided services to our clients.

Within the recruitment industry, Morson is equally as committed to candidate service. As a measure of our dedication to candidate care, Morson has recently been awarded two 'RecruitRank' awards, which are based solely on the feedback of work seekers and are therefore an objective award, demonstrating true capabilities in delivering excellent service to candidates. We would like to thank our valued contractors working on assignments for their loyalty, expertise and commitment which is very much appreciated. We are continually investing in our information systems platforms and interaction with our candidates and listening to feedback from them to develop and improve our service.

2010 ACHIEVEMENTS AND OUTLOOK

Morson has performed well and continued to deliver substantial profits despite the difficult economic cycle, the contracts we lost with Magnox and Metronet Track Services as reported last year, and latterly the strategic defence review. This reflects our spread of sector coverage, focus on temporary rather than permanent recruitment and Morson Projects' outsourcing capacity. Our core resource skills capability will allow us to build on this experience, developing our longer-term prospects and future opportunities. Morson provides scarce engineering talent to specialised engineering sectors, largely related to long-term infrastructure projects and the maintenance of some of the UK's prime assets. We have continued to win new contracts and re-tenders. We have won new business with clients in and connected to all our specialist sectors, and expect further positive progress over the next twelve months.

The acquisitions we made during the year consolidated our position as the market leader in our field. Acetech allowed Morson to significantly increase its services to the Babcock Group and secure long-term contracts within the rail and marine sectors, strengthening our expertise and increasing our market share.

Wynnwith has reinforced Morson's dominance within the Aerospace and Defence market with the addition of excellent contracts and relationships with GKN, Agusta Westland and the wider Finmeccanica Group. Additional niche benefits include new skill-sets within its database of contractors and the capability to supply pilots to the world's airlines. Wynnwith has also provided additional geographic coverage to support our customers in the UK, adding Woking and Yeovil offices, plus a European base in Milan.

The contractor headcount for the acquisitions added over 2,500 to Morson contractor numbers and each comes with a valuable database, bringing Morson's total database of contractors to over 400,000.

Inevitably there is restructuring necessary and the cost relating to this, with regards only to the two businesses acquired, has been charged within 2010 as an exceptional item. There has been a determined and successful effort made when undertaking this restructuring to focus on back office synergies and support functions, whilst maintaining the continuity and quality of client facing operations and recruitment. This exercise has provided synergies, helping overcome the losses that the acquired Wynnwith business was making and we anticipate these income streams giving a positive contribution henceforth.

It has been notable that the integration of the Wynnwith and Acetech businesses into Morson has progressed timely and efficiently. The cultural fit of the organisations has been remarkably close and in terms of client focus, quality of service, delivery and business ethics the Board are very pleased with the outcome achieved. All involved are now focused on maximising the opportunities created by the larger Group.

On 11 February 2011 the Group announced the acquisition of the entire minority non-controlling interest of Morson Wynnwith Limited for a consideration of £4.0 million, making it a 100% owned subsidiary. Bringing together the Group and the acquired businesses gives Morson an added impetus, providing greater business development opportunities across the Group as a whole and more scope for Morson Projects to cross-sell its services.

Outlook

During 2010, the Group's order book has remained stable and we have experienced some slowdown in the progression of new contracts coming out to tender during the year. However looking forward to 2011 there is an increase in tender enquiry and activity and there are few re-bids of our main recruitment contracts.

It is an accepted feature of the specialist staffing market that temporary hiring tends to be more robust in a downturn and hence our bias in this area has helped stability. However, the permanent recruitment market is now showing some signs of improvement and therefore Morson has targeted this as a potential growth area and will be making a measured investment in this market.

The Group's key markets remain attractive, with a number of significant long term projects that give growth opportunities via organic activity and market share. The scale of the enlarged Group's operations, our expertise and track record will place us in a strong position from which to benefit and give us confidence in the outlook for the future.

FINANCIAL REVIEW

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

Key Performance Indicators

	2010	2009	Variance	
	£'000	£'000	£'000	%
Revenue	457,639	436,627	21,012	4.8
Net Fee Income (gross profit)	35,095	34,773	322	0.9
Adjusted operating profit (see below)	9,215	12,317	(3,102)	(25.2)
Adjusted profit before tax (see below)	8,113	10,806	(2,693)	(24.9)
Conversion ratio (adjusted operating profit to NFI)	26.3%	35.4%		
Adjusted operating profit margin	2.0%	2.8%		
Interest cover (being ratio of other finance costs to adjusted operating profit -see below)	x8.4	x8.2		
Dividend cover measured against adjusted basic earnings per share (see note 7)	2.3	3.1		
Net debt (see note 8)	23,196	10,934	12,262	112.1%
Average net debt during the year	22,796	21,130	1,666	7.9%
	Number	Number	Number	
Average contractor numbers (not in '000)	10,200	9,100	1,100	12.1%

Derivation of key performance indicators from Consolidated Income Statement

	2010	2009
	£'000	£'000
Operating profit	9,440	10,661
Add: amortisation of intangible assets	620	1,222
Less: exceptional gain on acquisition of business	(1,249)	-
Add: exceptional restructuring costs	404	-
Add: exceptional head office relocation cost	-	434
Adjusted operating profit	9,215	12,317
Profit before tax	9,401	9,680
Less fair value gain on financial instrument	(1,063)	(530)
Add: amortisation of intangible assets	620	1,222
Less: exceptional net gain on acquisition of businesses	(1,249)	-
Add: exceptional restructuring costs	404	-
Add: exceptional head office relocation cost	-	434
Adjusted profit before tax	8,113	10,806

Derivation of key performance indicators from Notes to the Consolidated Income Statement regarding segmental reporting

	2010	2009	Variance	
	£'000	£'000	£'000	%
Morson International: temporary and permanent recruitment services				
Operating profit	9,101	10,096		
Add: amortisation of intangible assets	620	1,222		
Less: exceptional gain on acquisition of business	(1,249)	-		
Add: exceptional restructuring costs	404	-		
Add: exceptional head office relocation cost	-	90		
Adjusted segmental operating profit	8,876	11,408	(2,532)	(22.2%)
Morson Projects: engineering design consultancy and management				
Operating profit	1,707	1,986		
Add: exceptional head office relocation cost	-	344		
Adjusted segmental operating profit	1,707	2,330	(623)	(26.7%)

These results show resilience and consistency against a backdrop of two notable contract losses, a rarity for the Group, and a severe recession in the UK economy, which contains the majority of the Group's activity. Underlying revenues across the Group have been boosted by the acquisitions in the year, and whilst adjusted profit before tax has decreased compared to 2009, it remains substantial. The average number of contractors measured over the whole period has increased, aided by the acquisitions in the period. Our working capital has been controlled, however has clearly been impacted by the acquisitions made, the flexible nature of the finance facility and the headroom within it demonstrating the suitability of this funding to such acquisition opportunities. 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 operating overheads, particularly in light of the reductions caused by the Governments' Strategic Defence Review. The costs of such operational reductions have been taken as a charge within the results for the year 2010 and not as an exceptional item.

Acquisitions contribution

Some performance measures of the acquisitions of Acetech and Wynnwith are set out to aid understanding of the performance of these and the wider Group. Whilst Morson Wynnwith is a corporate entity, now 100% owned, that will file separate Statutory Report and Accounts, Acetech is completely absorbed within Morson International. Results relate to the period since acquisition and thus consolidated within the Group financial statements. In future years these activities will not be separately reported as they are simply part of the main temporary and permanent recruitment business segment.

Wynnwith:	Revenues £44.1 million. NFI £3.6 million, of which £0.4 million is permanent, and adjusted operating profit (i.e. before and exceptional items and amortisation) £nil
Acetech:	Revenues £6.9 million, NFI £0.4 million, all relating to temporary activity, and adjusted operating profit (i.e. before and exceptional items and amortisation) £0.2 million

Revenue

2010 has seen Group revenue increase by 4.8% to £457.6 million (2009: £436.6 million), with acquisitions contributing £51.0 million (2009: nil) impacting wholly the temporary and permanent recruitment segment. Net revenues excluding acquisitions in this segment were therefore down from £401.8 million to £369.2 million, a fall of £32.6 million or 8.1%, of which management estimate some £20.5 million is directly attributable to the loss of two contracts (Magnox and TfL Trackforce) as highlighted within the 2009 financial statements and earlier in this report. Morson Projects had net revenue of £37.5 million up 7.6% on the preceding year (£34.8 million).

Net Fee Income ("NFI")

Group NFI, or gross profit, has increased to £35.1 million (2009: £34.8 million), a rise of 0.9%. The split of NFI across temporary and permanent recruitment and engineering design consultancy was £27.4 million, £1.1 million and £6.6 million respectively (2009: £27.3 million, £0.8 million and £6.7 million).

The Group therefore saw a decrease in its percentage gross margin to 7.7% (2009: 8.0%). Split by operating segments this reflects reduced margins in temporary and permanent recruitment at 6.8% (2009: 7.0%). Within this segment Morson Wynnwith achieved gross margin of 8.3% and the Morson International business saw a decline in gross margins to 6.6% (2009: 7.0%). There was also a reduced position for engineering design consultancy and management to 17.7% (2009: 19.3%).

For recruitment the reduced margin was driven by a difficult and competitive market resulting in a mix of margin pressure on new and existing business, loss of the more profitable Trackforce contract and less recruitment activity in some areas where replacement contractors attract higher margins. Morson Projects also traded through a difficult period and some larger contracts caused a lower mix of margins achieved.

Operating profit and conversion ratio

Compared to 2009, adjusted operating profit decreased by £3.1 million to £9.2 million (2009: £12.3 million), a fall of 25.2% on the comparable year. Considering this by business segment shows recruitment activity falling from £11.4 million to £8.9 million, noting this comprises Morson International's contribution as Morson Wynnwith was at break-even levels in this period, and in engineering design consultancy and management Morson Projects has also experienced falls with adjusted operating profit down from £2.3 million to £1.7 million.

Adjusted operating margins before amortisation and exceptional items for the Group, which are calculated after shared group costs of £1.4 million (2009: £1.4 million), were 2.0% (2009: 2.8%). This is a reflection of gross margin erosion, difficult trading conditions and includes increased establishment costs through the move into a new Head Office and the costs of aligning some areas of the Group's overhead to reduced levels of activity.

The "Conversion Ratio" is measured as the ratio of adjusted operating profit before amortisation and exceptional items to NFI (as shown in the table above). For the Group this year this measure is 26.3% (2009: 35.4%). The Board feels that whilst this is a reasonable result in a difficult market and in line with or above many other recruitment businesses, Morson should aim to improve this when our market improves. A key contributory factor here is the Morson Wynnwith business, which when acquired was loss making and excluding this activity from the measure would mean an underlying conversion ratio of 29.2%. The Group's business model can deliver high volume services in an efficient manner across a wide offering of engineering technical resource and services to our clients from a nationwide network of offices which is required to achieve consistently high Conversion Ratios.

Exceptional items

There are two exceptional items identified in 2010. Firstly there is an exceptional gain of £1.2 million realised on assessment of the fair value of the acquisitions, a detailed analysis of which is set out at note 11. Secondly £0.4 million is charged in respect of the acquisition and integration of the Acetech and Wynnwith businesses. Exceptional charges in 2009 of £0.4 million related to costs associated with the move into new Head Office premises, comprising a charge of £271,000 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.

Finance costs

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

First a finance charge of £1.1 million (2009: £1.5 million) being the costs incurred on borrowings through a function of both bank base rates and the financial instrument (as described below) connected to these. With average net debt during 2010 of £22.8 million (2009: £21.1 million) this gives a blended cost of finance of 4.8% (2009: 7.2%).

Interest on the Group's core confidential invoice discounting facility and revolving credit facility is 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.

Second, there is a gain of £1,063,000 (2009: gain of £530,000) recognised in the consolidated income statement relating to the fair value movement of the derivative financial instrument entered into to protect the Group against high interest rates. The instrument expired on 20 October 2010 and was 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 a large negative fair value of the instrument to be recognised in the 2008 Report. The credit to the 2009 and 2010 accounts reflects the movement in the fair value of the derivative financial instrument over the year to the balance sheet date. Interest payable under this instrument was paid quarterly in arrears and was dependent on the actual base rate during that period. Thus the charge in 2010 reflected actual determined interest (included in the recognised finance cost above) together with the non-cash fair value movement as the term of the instrument unwound.

At 31 December 2010 no financial instruments to protect against base interest rate movements were in place. In January 2011 an interest base rate swap instrument was entered into for £5.0 million at a rate of 2.03% for a period of three years commencing on 1 April 2011. This is an area that is kept under review by the Board.

Interest cover for the finance charge before fair value movement on the derivative, exceptional items and amortisation for the year increased to 8.4 times (2009: 8.2 times).

Adjusted profit before tax

With the difficult trading environment, lost contracts and margin erosion, adjusted profit before tax has fallen by 24.9% to £8.1 million (2009: £10.8 million). The adjusting items are set out in the table above. 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 £9.4 million (2009: £9.7 million), a fall of £0.3 million or 2.9%. 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 19.9% (2009: 25.1%), lower than the standard rate of tax of 28% (2009: lower than standard rate of 28%). The key factors impacting this underlying charge for the Group which tend to decrease the tax rate is certain costs that qualify as research and development expenditure eligible for tax relief. However, offsetting 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 15.69 pence (2009: 16.07 pence), a fall of 2.4%. Adjusted earnings per share (before amortisation of intangible assets, exceptional items and fair value movement of the derivative financial instrument) as calculated in note 7 was down by 23.9% to 14.06 pence (2009: 18.48 pence).

Share options have been granted during the year and further information will be given within the Remuneration Report which forms part of the full 2010 Report and Accounts.

Dividend

The Board has recommended that dividend levels be maintained in line with the previous year as a final dividend of 4.0 pence (2009: 4.0 pence) per share payable on 1 June 2011 to shareholders on the register at 6 May 2011, subject to approval at the annual general meeting on 26 May 2011. An interim dividend of 2.0 pence per share (2009: 2.0 pence) was paid on 29 October 2010, making a total dividend of 6.0 pence per share (2009: 6.0 pence) for the year. The total dividend is covered 2.8 times (2009: 2.7 times) by current year earnings.

Cash flow and financing

Group net debt is most affected by temporary and permanent recruitment segment activity rather than by design consultancy and management. This is due to the nature of temporary recruitment activity, where payments to contractors are usually weekly and cash receipts from clients are per commercial terms and framework agreement terms that can range from 14 to 90 days. As a result of these factors, 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 this business would benefit the net debt position. Working capital still needs managing and may very well be impacted by material key client contract terms.

During 2010 we have seen a rise in recruitment activity driven by the acquisitions completed mid-year and this has been a key reason for the rise in the net debt position, also the outgoing consideration on the Acetech transaction impacted. Net cash generated by operations (before tax and interest) was £5.5 million (2009: £25.2 million), representing a conversion of 60% of adjusted operating profit (2009: 205%). The 2009 amount was somewhat of an exceptional position assisted by cut-off timing factors and very good 2009 year end debtor collection, 2008 conversion was 119%. 2010 has shown some decline impacted by slower debt receipts in the acquired businesses, increases in Morson Projects contracts in progress and other working capital movements. Tax paid fell from £2.4 million to £1.9 million due to a reduction in adjusted profit before tax, adjustment for prior periods and some allowable research and development expenditure. During the year, working capital increased by £4.6 million (2009: decreased by £12.0 million), due principally to the increased activity in recruitment through the acquisitions made. Cash collection achieved through the year has been good with core activity and contracts running smoothly. The acquired debtors of Morson Wynnwith were collected to c.98% levels which is very pleasing. Some accounts since acquisition have proved a little problematic in terms of purchase order cover and increased debt turn above target levels, however this is expected to be brought back in line with directors' expectations during the first half of 2011. An indicative calculation counting revenue plus closing rate VAT back into trade and other receivables gives debt turn at the year end of 57 days (2009: 51 days). Capital expenditure at £2.3 million (2009: £1.6 million) is stated gross of grant income received of £0.5m (2009: £nil) and £0.4m (2009: £nil) of opening accruals for Head Office property improvements and fixtures and fittings valued but not billed at 31 December 2009. This was as expected with the majority of the capital commitments and outflows connected with the new Head Office and also some further investment in design software for Morson Projects.

In September and October 2010 the financing facilities utilised by the Group were extended following discussions with Barclays, our finance provider, and remain largely consistent with 2009. 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. Costs are on a bank base rate plus margin basis and the facility has been extended to 31 March 2014. The current capacity of the facility affords the Group significant headroom. The Group also has a revolving credit facility of £5 million, extended and in place until 31 October 2013. At year end this was not utilised (2009: not utilised) as there was plenty of capacity within the invoice discounting facility. Consideration of the going concern basis is provided in note 1 to this preliminary announcement.

On 11 February 2011 the Group completed the acquisition of all of the 49% non-controlling interest in Morson Wynnwith making it a 100% owned subsidiary. The consideration was £4.0 million and this was financed via the revolving credit facility.

Balance sheet

Net assets have increased to £62.0 million (2009: £57.4 million). This increase principally reflects the impact of the retained profit for the year. Net cash and cash equivalents, including the invoice discounting facility overdraft, at the 2010 year end were debt of £23.2 million (2009: £10.9 million).

Consolidated income statement

Year ended 31 December 2010

	Note	2010 Unaudited £'000	2009 £'000
CONTINUING OPERATIONS			
Revenue	2	457,639	436,627
Cost of sales		(422,544)	(401,854)
GROSS PROFIT		35,095	34,773
Administrative expenses:			
– amortisation of intangible fixed assets		(620)	(1,222)
- exceptional items:			
- net gain on acquisition of businesses	11	1,249	-
- restructuring costs	3	(404)	-
- head office relocation cost	3	-	(434)
– other administrative expenses		(25,880)	(22,456)
OPERATING PROFIT	3	9,440	10,661
Finance costs:			
- fair value movements on derivative financial instrument		1,063	530
- other finance costs	4	(1,102)	(1,511)
PROFIT BEFORE TAXATION		9,401	9,680
Taxation	5	(1,870)	(2,434)
NET PROFIT FOR THE YEAR		7,531	7,246
Attributable to:			
Equity holders of the parent		6,985	7,193
Non-controlling interests		546	53
		7,531	7,246
EARNINGS PER SHARE			
From continuing operations			
Basic (pence)	7	15.69	16.07
Diluted (pence)	7	15.42	15.91

All activity has arisen from continuing operations.

Consolidated statement of comprehensive income

Year ended 31 December 2010

	2010 Unaudited £'000	2009 £'000
PROFIT FOR THE YEAR	7,531	7,246
Exchange differences on translation of foreign operations	28	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7,559	7,246
Attributable to:		
Equity holders of the parent	7,013	7,193
Non-controlling interests	546	53
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,559	7,246

Consolidated balance sheet

At 31 December 2010

		2010	2009
		Unaudited	
	Note	£'000	£'000
NON-CURRENT ASSETS			
Goodwill		33,513	32,945
Other intangible assets		2,650	739
Property, plant and equipment		3,753	3,282
Deferred tax asset		-	252
		39,916	37,218
CURRENT ASSETS			
Trade and other receivables		85,939	69,485
Cash and cash equivalents	8	1,701	130
		87,640	69,615
TOTAL ASSETS		127,556	106,833
CURRENT LIABILITIES			
Trade and other payables		(39,648)	(36,098)
Current tax liabilities		(602)	(1,176)
Obligations under finance leases		(37)	(61)
Bank overdrafts	8, 9	(24,897)	(11,064)
Derivative financial instrument		-	(1,063)
		(65,184)	(49,462)
NET CURRENT ASSETS		22,456	20,153
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(333)	-
		(333)	-
TOTAL LIABILITIES		(65,517)	(49,462)
NET ASSETS		62,039	57,371
EQUITY			
Issued capital	10	2,267	2,267
Share premium account	10	37,607	37,607
Retained earnings	10	22,443	18,087
Other reserves	10	(928)	(694)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		61,389	57,267
Non-controlling interest		650	104
TOTAL EQUITY		62,039	57,371

Consolidated cash flow statement

Year ended 31 December 2010

		2010	2009
		Unaudited	
	Note	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	2,541	21,277
INVESTING ACTIVITIES			
Grant income received		479	-
Proceeds on disposal of property, plant and equipment		68	36
Purchases of property, plant and equipment		(2,307)	(1,566)
Acquisition of businesses		(10,104)	-
NET CASH USED IN INVESTING ACTIVITIES		(11,864)	(1,530)
FINANCING ACTIVITIES			
Dividends paid		(2,671)	(2,686)
Purchase of own shares		(262)	(204)
Repayments of obligations under finance leases		(24)	(110)
NET CASH USED IN FINANCING ACTIVITIES		(2,957)	(3,000)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(12,280)	16,747
Effects of foreign exchange rate changes		18	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8	(10,934)	(27,681)
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	(23,196)	(10,934)

Consolidated statement of changes in equity

Year ended 31 December 2010

	Share capital £'000	Share Premium account £'000	Retained earnings £'000	Translation reserve £'000	Own shares £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2009	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	-	-	-
At 1 January 2010	2,267	37,607	18,087	-	(694)	57,267	104	57,371
Profit for the year	-	-	6,985	-	-	6,985	546	7,531
Dividends paid	-	-	(2,671)	-	-	(2,671)	-	(2,671)
Share-based payments	-	-	42	-	-	42	-	42
Purchase of own shares	-	-	-	-	(262)	(262)	-	(262)
Exchange differences on translating the net assets of foreign operations	-	-	-	28	-	28	-	28
AT 31 DECEMBER 2010 (UNAUDITED)	2,267	37,607	22,443	28	(956)	61,389	650	62,039

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 2011.

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2010 or 2009. The financial information for the year ended 31 December 2009 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 s498(2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2010 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 2009 financial statements with the exception of changes required as a result of adopting IFRS 3 (2008) *Business Combinations* and IAS 27 (2008) *Consolidated and Separate Financial Statements* with effect from 1 January 2010. These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3 (2008) has also introduced additional disclosure requirements for acquisitions.

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 2014 for its invoice discounting facility and until 31 October 2013 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

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.

The acquisitions of the Wynnwith and Acetech businesses in the year (see note 11) have been recognised in the provision of temporary and permanent recruitment services sector.

	Provision of temporary and permanent recruitment services		Provision of engineering design consultancy and management		Total	
	2010	2009	2010	2009	2010	2009
	Unaudited £'000	£'000	Unaudited £'000	£'000	Unaudited £'000	£'000
Gross revenue	434,142	412,277	37,599	35,358	471,741	447,635
Inter-segment sales	(13,969)	(10,470)	(133)	(538)	(14,102)	(11,008)
Revenue to third parties	420,173	401,807	37,466	34,820	457,639	436,627
Segmental gross profit	28,468	28,054	6,627	6,719	35,095	34,773
Administrative expenses	(19,592)	(16,646)	(4,920)	(4,389)	(24,512)	(21,035)
Exceptional items:						
- net gain on acquisition of businesses	1,249	-	-	-	1,249	-
- restructuring costs	(404)	-	-	-	(404)	-
- head office relocation cost	-	(90)	-	(344)	-	(434)
Amortisation of intangible assets	(620)	(1,222)	-	-	(620)	(1,222)
Shared costs	-	-	-	-	(1,368)	(1,421)
SEGMENT RESULT	9,101	10,096	1,707	1,986	9,440	10,661
Finance charge (net)	(1,086)	(1,489)	(21)	(20)	(1,107)	(1,509)
Shared finance income (net of shared finance costs)	-	-	-	-	1,068	528
SEGMENT RESULT AFTER FINANCE CHARGES	8,015	8,607	1,686	1,966	9,401	9,680
Taxation					(1,870)	(2,434)
PROFIT AFTER TAXATION					7,531	7,246
Capital additions	695	1,050	704	989	1,399	2,039
Depreciation and amortisation	1,072	1,610	377	687	1,449	2,297
NET ASSETS						
Segment assets excluding amounts due from other Group companies	106,260	87,619	20,372	18,106	126,632	105,725
Unallocated corporate assets					924	1,108
Consolidated total assets					127,556	106,833
Segment liabilities excluding amounts due to other Group companies	(58,227)	(38,381)	(6,548)	(7,774)	(64,775)	(46,155)
Unallocated corporate liabilities					(742)	(3,307)
Consolidated total liabilities					(65,517)	(49,462)
Consolidated net assets					62,039	57,371

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 £nil (2009: £271,000) 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 and liabilities consist of receivables and payables in Morson Holdings Limited and Morson Group PLC.

Included in revenues arising from the provision of temporary and permanent recruitment services are revenues of £63,155,000 (2009: £80,103,000) which arose from sales to the Group's largest customer.

3. PROFIT FOR THE YEAR

	2010	2009
	Unaudited	
	£'000	£'000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	829	1,075
Foreign exchange gains	(264)	(30)
Loss/ (profit) on disposal of fixed assets	31	(2)
Amortisation of intangible assets	620	1,222
Staff costs	34,556	19,970
Exceptional items:		-
- net gain on acquisition of businesses (see note 11)	(1,249)	
- restructuring costs	404	-
- head office relocation cost	-	163
Movement in allowance for doubtful debts	1,135	(459)

Restructuring costs of £404,000 have been incurred following the acquisition and integration of the Wynnwith and Acetech businesses (see note 11). This includes an accrual for redundancy costs committed to at the balance sheet date.

Operating costs of £434,000 have been presented as exceptional costs in the prior 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 that are directly related to the relocation and would not otherwise have been incurred.

4. FINANCE COSTS

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

	2010	2009
	Unaudited	
	£'000	£'000
Interest on bank overdrafts and loans	296	297
Interest paid in respect of the derivative financial instrument	780	1,172
Other financing charges payable	22	29
Interest on obligations under finance leases	4	13
Total other finance costs	1,102	1,511

The loans and overdraft which result in the interest charge are described in more detail in note 9

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

5. TAXATION

	2010	2009
	Unaudited	
	£'000	£'000
Current tax		
- current year	1,501	2,214
- adjustments in respect of prior years	(45)	(2)
Deferred tax		
- current year	343	67
- prior year	71	155
	1,870	2,434

Corporation tax is calculated at 28.0% (2009: 28.0%) 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:

	2010	2009
	Unaudited	
	£'000	£'000
Profit before taxation	9,401	9,680
Tax at the UK corporation tax rate of 28.0% (2009: 28.0%)	2,632	2,710
Expenses not deductible for tax purposes	9	257
Income not taxable	(230)	(30)
Tax effect of higher/ (lower) rates of tax on overseas income	123	(234)
Effect of research and development tax credits	(615)	(365)
Utilisation of losses	(65)	(51)
Adjustments to tax charge in respect of prior periods	26	153
Other	(10)	(6)
Tax expense for the year	1,870	2,434

6. DIVIDENDS

	2010 Unaudited £'000	2009 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2009 of 4.0 pence per share (year ended 31 December 2008: 4.0 pence)	1,783	1,792
Interim dividend for the year ended 31 December 2010 of 2.0 pence per ordinary share (year ended 31 December 2009: 2.0 pence)	888	894
	2,671	2,686
Proposed final dividend for the year ended 31 December 2010 of 4.0 pence (2009: 4.0 pence)	1,777	1,787

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

The calculation of EPS is based on the following data and numbers of shares:

	2010 Unaudited £'000	2009 £'000
Profit for the year used for the calculation of basic earnings per share	6,985	7,193
Amortisation of intangible assets	569	1,222
Exceptional Items:		-
- net gain on acquisition of businesses	(625)	-
- restructuring costs	244	-
- head office relocation cost	-	434
Fair value movements on derivative financial instruments	(1,063)	(530)
Tax effect of adjustments	149	(46)
Earnings for the purposes of adjusted earnings per share	6,259	8,273
	2010	2009
NUMBER OF SHARES		
Weighted average number of ordinary shares for the purposes of basic earnings per share	44,520,191	44,766,798
Effect of potentially dilutive ordinary shares:		
- share options	794,207	453,760
Weighted average number of ordinary shares for the purposes of diluted earnings per share	45,314,398	45,220,558
Earnings per share:		
- basic (pence)	15.69	16.07
- diluted (pence)	15.42	15.91
Adjusted earnings per share:		
- basic (pence)	14.06	18.48
- diluted (pence)	13.81	18.30

The adjusted earnings per share has been calculated on the basis of continuing operations before amortisation of intangible assets, the exceptional items and the fair value movement of the derivative financial instrument, net of tax. Adjustments have been made to these values to account for the share of non-controlling interests. The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's earnings per share.

8. CASH AND CASH EQUIVALENTS

	2010	2009
	Unaudited	
	£'000	£'000
Cash and cash equivalents	1,701	130
Bank overdrafts (see note 9)	(24,897)	(11,064)
Cash and cash equivalents in the cash flow statement	(23,196)	(10,934)

9. BORROWINGS

	2010	2009
	Unaudited	
	£'000	£'000
SECURED BORROWING AT AMORTISED COST		
Bank overdrafts	24,897	11,064
The borrowings are repayable as follows:		
– on demand or within one year	24,897	11,064

	2010	2009
	%	%
The weighted average interest rates paid were as follows:		
– bank overdrafts	1.50	1.58
– bank loans	1.79	-

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 £24,897,000 (2009: £11,064,000) have been secured on the trade debtors of the Group. The average effective interest rate on bank overdrafts approximates 1.50% (2009: 1.58) 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 been utilised in the current year but there were no borrowings at the balance sheet date.

At 31 December 2010, the Group had available £22,694,000 (2009: £24,561,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

10. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Translation Reserve £'000	Own shares £'000	Total £'000
At 1 January 2009	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	-
At 1 January 2010	2,267	37,607	18,087	-	(694)	57,267
Profit for the year	-	-	6,985	-	-	6,985
Dividends paid	-	-	(2,671)	-	-	(2,671)
Share-based payments	-	-	42	-	-	42
Purchase of own shares	-	-	-	-	(262)	(262)
Exchange differences on translating the net assets of foreign operations	-	-	-	28	-	28
AT 31 DECEMBER 2010 (UNAUDITED)	2,267	37,607	22,443	28	(956)	61,389

Investments in "own shares" to a value of £109,000 (2009: £109,000) 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 £262,000 (2009: £204,000) have been made to this Trust during the year and these have been used completely and exclusively to buy Morson Group PLC shares. As at 31 December 2010 the Trust held 763,884 ordinary 5 pence shares in Morson Group PLC and no other securities or investments. There has been no charge to the consolidated income statement during the year.

11. ACQUISITION OF BUSINESSES

The Group has adopted IFRS 3 (2008) *Business Combinations* and IAS 27 (2008) *Consolidated and Separate Financial Statements* with effect from 1 January 2010.

During the year ended 31 December 2010, the Group made two acquisitions.

- 1) On 9 June 2010 the Group announced the formation of a 51% subsidiary, Recruit Now Limited, since renamed to Morson Wynnwith Limited. This subsidiary acquired the business and assets of Wynnwith Group Limited ("Wynnwith") and the issued share capital of Wynnwith SRL, its Italian trading subsidiary, out of administration. Wynnwith provides technical and engineering personnel to a range of blue-chip clients in the aerospace, defence, marine, electronics and rail industries and had been a well-established and respected competitor of the Group.
- 2) On 9 July 2010 the Group acquired the business, contracts and fixed assets of Acetech Personnel Limited ("Acetech"). Acetech is a wholly owned subsidiary of Babcock International Group PLC and provides recruitment and workforce services, on a preferred supplier basis, to Babcock's UK Marine and Rail businesses. Contracts have been agreed with Babcock for a minimum five-year term for the continuation of supply of contractors.

	Wynnwith £'000	Acetech £'000	Total £'000
Recognised amounts of identifiable assets acquired and liabilities assumed			
Financial assets	9,659	-	9,659
Property, plant and equipment	27	16	43
Identifiable intangible assets	725	1,806	2,531
Deferred tax asset	25	488	513
Financial liabilities	(987)	(35)	(1,022)
Deferred tax liability	(196)	(488)	(684)
	<hr/>	<hr/>	<hr/>
Total identifiable assets	9,253	1,787	11,040
Goodwill	(1,504)	568	(936)
	<hr/>	<hr/>	<hr/>
Total consideration	7,749	2,355	10,104
	<hr/>	<hr/>	<hr/>
Satisfied by:			
Cash	7,749	2,355	10,104
	<hr/>	<hr/>	<hr/>
Total consideration transferred and net cash outflow arising on acquisition	7,749	2,355	10,104
	<hr/>	<hr/>	<hr/>
Acquisition-related costs	230	25	255
Release of negative goodwill from bargain purchase	(1,504)	-	(1,504)
	<hr/>	<hr/>	<hr/>
Total exceptional (gain)/ cost on acquisition of businesses	(1,274)	25	(1,249)
	<hr/>	<hr/>	<hr/>

Wynnwith contributed £44,068,000 revenue and £876,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. The contribution to profit consists of profit before amortisation and exceptional items £32,000, less exceptional restructuring costs £326,000, add exceptional gain on acquisition £1,274,000, less amortisation £104,000.

If the acquisition of Wynnwith had been completed on the first day of the financial year, group revenues for the period would have been £491,653,000 and group profit would have been £7,437,000. These figures have been estimated based on an extrapolation of results achieved in the period since acquisition.

The fair value of the financial assets of Wynnwith includes trade receivables with a fair value of £9,264,000 and a gross contractual value of £9,464,000. The best estimate at acquisition date of the contractual cash flows to be collected are £9,264,000.

Wynnwith was acquired out of administration. A gain has been realised as the price negotiated was lower than the subsequently assessed accounting fair value of the assets acquired.

Acetech contributed £6,907,000 revenue and £(71,000) to the Group's profit for the period between the date of acquisition and the balance sheet date. The contribution to profit consists of profit before amortisation and exceptional items £213,000 less exceptional restructuring costs £78,000, exceptional cost of acquisition £25,000 and amortisation £181,000.

If the acquisition of Acetech had been completed on the first day of the financial year, group revenues for the period would have been £465,057,000 and group profit would have been £7,546,000. As above these figures have been estimated based on an extrapolation of results achieved in the period since acquisition.

The goodwill of £568,000 arising from the acquisition of Acetech consists of the skills and technical capabilities of the employees who joined the Group and synergies that are expected to be achieved as a result of the transaction along with competitive advantage and unidentifiable customer relationships. This goodwill is expected to be deductible for income tax purposes.

12. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATIONS

	2010 Unaudited £'000	2009 £'000
Operating profit	9,440	10,661
Adjustments for:		
Exceptional net gain on acquisition of businesses	(1,249)	-
Exceptional restructuring costs	404	-
Exceptional head office relocation cost (accelerated depreciation amount included in depreciation line)	-	163
Depreciation of property, plant and equipment	829	1,075
Amortisation of intangible assets	620	1,222
Share-based payment expense	42	96
Loss/ (gain) on disposal of property, plant and equipment	31	(2)
Operating cash flows before movements in working capital	10,117	13,215
(Increase)/ decrease in inventories	(1,830)	534
(Increase)/ decrease in receivables	(4,930)	5,565
Increase in payables	2,187	5,893
Cash generated by operations	5,544	25,207
Income taxes paid	(1,901)	(2,419)
Interest paid	(1,102)	(1,511)
Net cash generated from operating activities	2,541	21,277

13. POST-BALANCE SHEET EVENT

On 11 February 2011 Morson Group PLC acquired the remaining issued shares in Morson Wynnwith Limited for a cash consideration of £4,005,000, taking its shareholding to 100%.

14. COPIES OF THIS STATEMENT

The Group's report and accounts for the year ended 31 December 2010 are expected to be posted to shareholders on 6 April 2011 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