

10 February 2010

## Morse plc

### Interim results for the six months ended 31 December 2009

Morse plc (“Morse”, “the Group” or “the Company” - LSE: MOR.L), the IT services and technology company, announces its interim results for the six months ended 31 December 2009.

#### Financial highlights

##### Continuing operations

- Revenue £107.6 million (2008: £107.5 million)
- Adjusted EBITDA\* increased 94% to £4.6 million (2008: £2.4 million) at a margin of 4.3% (2008: 2.2%)
- Adjusted EBIT\* increased by 249% to £3.6 million (2008: £1.0 million) at a margin of 3.4% (2008: 1.0%)
- No exceptional items in the period (2008: £5.4 million)
- Profit before tax and exceptional items £4.1 million (2008: £2.2 million)
- Adjusted basic earnings per share (before exceptional items and trading balance releases and with a normalised tax charge) 1.8p (2008 restated loss per share: 0.0p)
- Net cash at 31 December 2009 of £13.6 million (2008: £3.8 million)
  - Cash at period end of £14.1 million (2008: £5.9 million)
  - Customer specific financing of £0.5 million (2008: £2.1 million)
- Cash generated from operations of £3.2 million (2008: cash absorbed by operations of £4.0 million) all of which was generated from continuing operations (2008: £4.0 million absorbed) representing 70% of Adjusted EBITDA in the period (2008: cash absorbed of 168% of Adjusted EBITDA).

#### Statutory results

##### Continuing operations

- Operating profit £4.1 million (2008: operating loss £2.7 million)
- Profit before tax £4.1 million (2008: loss before tax £3.2 million)
- Basic earnings per share 2.1p (2008: loss per share 2.3p)

##### Discontinued operations

- Disposal in the period of Australian and French Investment Management Consulting (“IMC”) businesses to respective management teams which concludes the disposal of this division.

\*In assessing the performance of the business the Directors use “Adjusted EBIT” and “Adjusted EBITDA”. Adjusted EBIT is Earnings Before Interest, Tax, Trading Balance Releases and Exceptional Items whilst Adjusted EBITDA is Earnings Before Interest, Tax, Depreciation, Amortisation, Share Based Payments, Trading Balance Releases and Exceptional Items.

#### Commenting on the results, Mike Phillips, Chief Executive Officer of Morse plc, said:

“The initiatives that we put in place during the last financial year have successfully focused the business on its core activities and improved profitability. The period under review has seen the continued recovery of Morse’s business with particular improvement in the operating performance of our Infrastructure Services & Technology business units. In the UK, Spain and Ireland, IS&T revenues and operating profits have shown year-on-year growth despite the difficult economic conditions being faced in each of these countries. The benefit of clear client propositions with focused customer and vendor engagement has been apparent.

In the Business Application Services business unit we have made changes during the period to ensure that the individual service offerings in this business unit, SAP, Portals and Collaboration and Business Change Management Consultancy, have the same level of focus and clarity. We had previously highlighted that revenues in the business unit would continue to decline this year and that we believe that the business unit has potential to provide a significantly better return. As such the focus of our strategy for this business is to grow revenues profitably.

We remain confident that, despite the challenging markets for IT services and technology within which the Group operates, when we announce our Q3 IMS in April 2010, we can again demonstrate the recovery of our business through the improvement in the trailing twelve months Adjusted EBIT performance and, consequently, improvement in underlying profitability and cash generation.”

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**About Morse**

Morse is an IT services and technology company operating in the UK, Spain, Ireland, USA and Asia Pacific and is structured as four independent business units:

- Infrastructure Services & Technology – UK;
- Infrastructure Services & Technology – Spain;
- Infrastructure Services & Technology – Ireland; and
- Business Applications Services.

**Infrastructure Services & Technology**

Focused on enterprise customers, providing a range of multi-platform skills, services and technologies in and around the data centre in a flexible manner.

**Business Application Services**

We have extensive experience around the design, integration and support of SAP through Diagonal, Microsoft portal technology platforms integrated with our Wisdom eDRM product and Change Management expertise through Xayce.

Our customers benefit from our focus on driving sustainable cost and efficiency improvements throughout the technology infrastructure that deliver tangible business outcomes.

## Chairman's statement

Morse's continuing operations are four independent business units each reporting to the Chief Executive Officer:

- Infrastructure Services & Technology – UK;
- Infrastructure Services & Technology – Spain;
- Infrastructure Services & Technology – Ireland; and
- Business Applications Services.

Each business unit prioritises activity in the markets in which it has specialist knowledge and capabilities. Cooperation between business units is encouraged where it adds value to the client engagement and to the business unit's profitability.

During the six months to 31 December 2009, Morse has continued the recovery of the business initiated in the year ended 30 June 2009. The simplified business structure and increased focus on core propositions has continued to deliver improved underlying profitability, particularly in the Infrastructure Services & Technology business units. The challenge for the Business Applications Services business unit is to grow its revenues profitably.

The Group's discontinued operations comprise Investment Management Consulting. During the period the Group's remaining majority holdings in businesses in Australia and France were sold to management.

A key focus for our management continues to be the improvement of the cash position of the Group. At the end of the period the cash balance was £14.1 million (2008: £5.9 million) and after taking account of Customer Specific Financing the net cash balance was £13.6 million (2008: £3.8 million). The underlying average weekly bank balance during the period was £11.8 million (2008: £2.9 million).

On 17 November 2009 the Company received Court Approval for the reduction of its share premium account in order to extinguish the deficit of retained earnings which was registered by the Registrar of Companies on 20 November 2009. This means that distributable profits generated by the Company after that date are available for distribution to shareholders. Whilst the Board has yet to formally determine its dividend policy, if the business continues to recover the Company could be in a position to declare a dividend at the year end for the first time since 2008.

The Group continues to improve its financial position and has seen improvement in both year-on-year and trailing twelve months Adjusted EBIT and Adjusted EBITDA performance. The Board would like to thank all of our employees for their continued hard work and commitment.

The Board continues to believe that Morse's operating model and focus, together with its ongoing strong client relationships, position the Group well to deliver improved underlying profitability and cash generation in the future. This improved financial performance and stability enables the Group to consider a variety of strategic options to deliver shareholder value.

Kevin Loosemore  
Non-Executive Chairman  
10 February 2010

## Chief Executive Officer's Statement

The six months to 31 December 2009 have demonstrated the continuing recovery of the financial performance of the Group overall with Adjusted EBIT increasing to £3.6 million compared to £1.0 million in the same period last year, representing growth of some 250%. This overall improvement consists of improvement in revenues and Adjusted EBIT in our Infrastructure Services & Technology business units together with reductions in Group and central costs offset by the planned and previously highlighted reduction in revenue and consequent reduction in Adjusted EBIT in the Business Application Services business unit. During the period we have also seen the completion of the disposal of our Investment Management Consultancy business unit.

Trading performance for the business units for the six months ended 31 December 2009 is shown in the table below. There were no exceptional items in the period, however, the comparative period figures are shown before the exceptional items of £5.4 million incurred in that period:-

	Revenue		Operating profit/(loss) before exceptional items		Margin %	
	Six months ended Dec 2009	Six months ended Dec 2008	Six months ended Dec 2009	Six months ended Dec 2008	Six months ended Dec 2009	Six months ended Dec 2008
	£m	£m	£m	£m		
<b>Infrastructure Services &amp; Technology:</b>						
• UK	58.4	57.2	3.8	3.0	6.6%	5.3%
• Spain	24.9	22.7	1.1	0.1	4.4%	0.6%
• Ireland	10.3	6.6	0.5	(0.1)	4.7%	(1.5%)
<b>Business Applications Services</b>	14.0	21.0	0.2	0.9	1.3%	4.4%
<b>Continuing operations</b>	107.6	107.5	5.6	3.9	5.2%	3.7%
Group and Central Costs			(2.0)	(2.9)		
Adjusted EBIT			3.6	1.0	3.4%	1.0%
Trading balance releases			0.5	1.6		
<b>Continuing operations</b>	107.6	107.5	4.1	2.7	3.8%	2.5%
<b>Discontinued operations</b>						
• Investment Management Consulting	1.2	6.8	0.3	0.0	26.8%	0.7%
<b>Total</b>	108.8	114.3	4.5	2.7	4.1%	2.4%

The business unit revenues are derived from Resale (of third party hardware & software product and maintenance), Maintenance and Support (where the business units have ongoing obligations and includes revenue from Morse's own Wisdom software application), and Services. Gross Profit margins on revenues from continuing operations in the six months to December 2009 were 18.6% (2008: 20.1%). Gross Profit margins in the period were reduced due to increased competition and pricing from vendors together with the impact of the decline in revenue in BAS.

As the management team is focused on delivering cash-generative operating profit, a key performance indicator is Adjusted EBITDA. In the six months to December 2009, Group Adjusted EBITDA was £4.6 million (2008: £2.4 million) an increase of 94%. On a trailing twelve month basis, Group Adjusted EBITDA had increased to £9.9 million at December 2009 from £7.6 million at the end of June 2009, an increase of 30%.

The Adjusted EBIT of £3.6 million (2008: £1.0 million) reflects the overall improvement in the performance of our business with the Adjusted Loss Before Interest and Tax in the three months to 30 September 2008 being replaced by Adjusted EBIT and an equally strong performance, compared to the prior year, in the three months to 31 December 2009. Infrastructure Services & Technology represented 87% of reported revenues from continuing

operations (2008: 80%) and the delivery of these revenues is weighted towards the end of each calendar quarter. This is in line with the revenue profile for the product partners for those business units. Traditionally, our second and fourth financial quarters have a stronger financial performance than our first and third financial quarters. In the three months to 31 March 2009 the Group reported an Adjusted Loss Before Interest and Tax, and therefore we are confident that we will be able to demonstrate the continued improvement in the financial performance of our business as we progress through the current financial year as indicated by the trailing 12 month financial performance.

The breakdown of revenues from continuing operations and a reconciliation of Adjusted EBITDA and Adjusted EBIT to operating profit before exceptional items is shown below:

	<b>Six Months Ended</b>	
	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>£m</b>	<b>£m</b>
<b>Revenues from continuing operations</b>		
Resale (third party hardware, software and maintenance)	59.1	52.4
Maintenance and Support (including Wisdom)	13.4	14.7
Services	35.1	40.4
	<b>107.6</b>	<b>107.5</b>
<b>Adjusted EBITDA</b>	4.6	2.4
Depreciation and Amortisation	(0.8)	(1.2)
Share based payments	(0.2)	(0.2)
Adjusted EBIT	3.6	1.0
Trading balance releases	0.5	1.6
<b>Operating profit before exceptional items</b>	<b>4.1</b>	<b>2.7</b>

Group and Central costs have reduced to £2.0 million (2008: £2.9 million) and the underlying cash costs have reduced by 20% as the breakdown below shows:

	<b>Six Months Ended</b>	
	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>£m</b>	<b>£m</b>
<b>Group and Central costs</b>		
Cash costs	1.3	1.5
Depreciation and Amortisation	0.5	0.6
Share based payments	0.2	0.2
Sub-total	2.0	2.3
Forex loss/(gain)	-	0.6
	<b>2.0</b>	<b>2.9</b>

The figures in the above tables are rounded to the nearest £100,000.

## Operational and financial review

### Infrastructure Services & Technology – UK

This is the largest business unit in the Group and generated revenues of £58.4 million (2008: £57.2 million) and an operating profit before exceptional items of £3.8 million (2008: £3.0 million) producing an improved operating margin of 6.6% (2008: 5.3%).

Infrastructure Services & Technology UK consists of three main lines of business:

- Technology - helping our clients with the sourcing, management and support of their IT estates utilising a Technology Lifecycle Management approach;
- Infrastructure Services - supporting our clients with technology transformation, project implementation and operations & resourcing services that help them optimise their data centres; and
- Providing the ICT expertise, technology and infrastructure services for South Tyneside and Gateshead Building Schools for the Future project ("STaG BSF").

The Technology business had revenues of £35.5 million (2008: £39.1 million) with the revenue decline arising predominantly due to delays in the sales cycle arising from an increased level of approval within our clients and deferral of investment decisions into the second half of our financial year. This has been coupled with some uncertainty in the market created by the impending takeover of Sun by Oracle which has impacted both new investment decisions and reduced the availability of some Sun partner programmes. Against this background, the business has maintained its existing customer relationships whilst applying additional focus towards new customer acquisition and the development of higher value propositions. We will continue to develop our operational processes and level of proposition focus during the current financial year.

The Infrastructure Services business had revenues of £20.0 million (2008: £17.3 million) an increase in revenue of 15% reflecting growth in new accounts acquired over the last twelve months together with expansion of existing customer accounts. We continue to enhance our technology transformation skills and higher-end data centre capabilities aimed at helping our clients simplify and optimise their environments.

The STaG BSF project is all that remains from the Morse in Education business. Revenues in the period were £2.9 million (2008: £0.8 million) reflecting milestones reached in respect of schools where ICT services have commenced. The initial term of the contract is currently expected to run until 30 April 2013 and so far five out of 15 schools included within the contract have seen the commencement of ICT service provision by Morse. Our relationship with the Local Education Partnership has improved during the period and the next three schools are scheduled to have ICT service commencement at the start of the new academic year in September 2010.

In Infrastructure Services & Technology we continue to have excellent ongoing partnerships with our key technology vendors - HP, IBM and Sun as well as relationships with key software providers such as Symantec and Oracle. Whilst the uncertainty of progress on Oracle's takeover of Sun has delayed some decision-making, the announcement on 27 January 2010 that the transaction will go ahead together with Oracle and Sun clarifying how they will go to market has dealt with this uncertainty.

Our focus for the business unit includes:

- Maintaining our Technology business based on the value of our Technology Lifecycle Management approach;
- Continuing to improve our systems and service delivery processes to offer a cost effective but superior level of client engagement; and
- Developing and delivering data centre optimisation, operations and resourcing services to provide our clients with the IT simplification and project-based return on investment they require.

The market for infrastructure services and technology will remain very focused on business critical IT projects where a high degree of flexibility and shorter-term success, demonstrated by Return on Investment payback, are essential. We believe that our structural and cost changes over the last eighteen months enables us to be well positioned to support this requirement for our existing customers as well as extending our customer and service reach in the future and developing higher value propositions that meet our clients' changing needs.

## **Infrastructure Services & Technology Europe - Spain**

Despite the ongoing economic difficulties, our Spanish business has seen a return to reasonable levels of profitability and an increase in revenue. In the six months ended 31 December 2009 Spain delivered operating profit of £1.1 million (2008: £0.1 million) on revenues that had increased to £24.9 million (2008: £22.7 million). On a constant currency basis revenues had increased by 2%. The Spanish business was restructured in January 2009 and since the end of February 2009 has been profitable each month at the operating profit level against its previous best performance under Morse ownership of three consecutive months. This has been achieved by remaining focused on the core propositions, re-engaging with their key vendor partner, IBM, and maintaining their key customer relationships. In particular, our largest client in Spain continues to invest in its infrastructure which has offset the decline in expenditure by small and medium sized enterprises.

The performance of the business in the period has been ahead of our expectations and the management team has done a good job in challenging circumstances. Whilst trading conditions have been very difficult and are expected to continue to be so, the business is well positioned to take advantage of any upturn in the economy.

## **Infrastructure Services & Technology Europe - Ireland**

In Ireland, Morse is a leading Infrastructure Services & Technology company and holds the highest level of accreditation with all of the major infrastructure and software vendors, together with executive level relationships in many of Ireland's blue chip companies. It continues to build a reputation as the technology partner of choice and is consolidating this position by working with its key vendors in providing coordinated propositions to the local market.

In the six months ended 31 December 2009 our Irish business delivered operating profit of £0.5 million (2008: operating loss £0.1 million) on revenues that had increased by 56% to £10.3 million (2008: £6.6 million). The increase in revenues was driven by two transactions that each generated revenues greater than €1 million. This is the first time in two years that such large transactions have occurred in our Irish business. The management team remains committed to delivering the optimal result in the difficult economic conditions that they face.

## **Business Applications Services**

Business Applications Services is organised around three separate businesses

- Diagonal – SAP implementation and support services;
- Portals and Collaboration (including Wisdom); and
- Xayce – Business Change and Transformation Consultancy.

Diagonal operates in three main territories: the UK, Asia Pacific and the USA whilst the other businesses are UK based.

In the six months to 31 December 2009 revenue was £14.0 million (2008: £21.0 million) and the business unit delivered a small operating profit in the period of £0.2 million (2008: £0.9 million). We had already highlighted that the revenue decline seen during the year ended 30 June 2009 would continue during the current year, although the level of revenue reduction has been higher than anticipated, particularly around SAP.

Action has been taken to address this decline and focus on the individual business has been increased. A number of new key proposition areas have been identified and the business has been simplified to focus business development and sales activities on our Microsoft, SAP and business change and transformation capabilities in the UK, USA and Asia Pacific.

As part of this simplification each business head now report directly to the CEO.

### **Diagonal – SAP implementation and support services**

Revenue for the six months ended 31 December 2009 was £9.5 million (2008: £15.0 million). The historical fixed price contract issues were dealt with during the year ended 30 June 2009 and significant improvement has been made in our key relationship with SAP. Improved project delivery at existing customers has benefited those relationships and the key for the business is to grow its revenues profitably. Diagonal has a strong name in the SAP market and we believe that through execution of our strategy it has potential to deliver significantly better returns in future.

In the USA and Asia Pacific we have seen improved outlook for the local businesses through SAP integration with Sky Mobility and Blackberry in the USA and through construction opportunities in Asia Pacific.

### **Portals and Collaboration**

The Portals and Collaboration business is focused on a set of core propositions: information portals and information collaboration solutions based upon Microsoft and Vignette technology platforms, electronic Document and Records Management (eDRM) solutions based upon our own software product, Wisdom, and the associated services and annuity based support revenue that is an integral part of such propositions. This business had revenues of £2.9 million in the period (2008: £4.4 million).

### **Xayce – Business Change and Transformation Consultancy**

Xayce specialises in helping large organization in the Financial Services and Local Government markets to shape and deliver their business change implementation programmes. Xayce revenues in the period were flat at £1.6 million (2008: £1.6 million) and the business continues to work with three strategic clients in banking and insurance together with several large local authorities.

### **Disposal of Investment Management Consulting**

The bulk of the IMC business was disposed of in the year ended 30 June 2009 and the remaining parts of the IMC business held at the year end were operated through majority-owned subsidiary undertakings in France and Australia. On 4 September 2009 Morse announced the sale of its stake in the Australian business to management. The sale proceeds were A\$50,000 and an intercompany loan and interest of A\$280,000 was repaid to Morse. Terms were then agreed with the management of the French subsidiary to sell Morse's stake to them for €150,000. This was a related party transaction which required shareholder approval, which was obtained on 22 October 2009. The disposal of the interest in the French business was completed on 27 October 2009.

## **Risks and Risk Management**

There have been no significant changes in the risks faced by the Group since the publication of the Annual Report and Accounts for the year ended 30 June 2009. Details of the risks faced by the business and how the Group manages those risks can be found on pages 7 and 8 of the Annual report.

## **Other Financial items**

### **Dividends and Capital Reduction process**

On 17 November 2009 the court approved the reduction of the Company's share premium account in order to extinguish the deficit on its retained earnings. This court approval was registered by the Registrars of Companies on 20 November 2009. This now means that distributable profits generated by the Company after the 20 November 2009 are available for distribution to shareholders, but no interim dividend is proposed (2008: Nil)

The Board has yet to decide on an appropriate dividend policy for the Company. If the business continues to recover, then for the first time for two years the Board could be in a position to propose a dividend for the year ending 30 June 2010.

### **Cash, Cash Flow and Banking Facilities**

Cash in the Group at 31 December 2009 amounted to £14.1 million compared to £5.9 million last year. At 31 December 2009 Customer Specific Financing of £0.5 million (2008: £2.1 million) reduced the net cash number to £13.6 million (2008: £3.8 million). Cash generated from operations for the period ended 31 December 2009 was £3.2 million (2008: cash absorbed by operations of £4.0 million), all of which was generated from continuing operations (2008: £4.0 million). This represented 70% of Adjusted EBITDA from continuing operations (2008: cash absorbed by operations of 168% of EBITDA).

Morse has historically operated a policy of seeking to maximise the reported cash balance at financial reporting period ends. To ensure an appropriate (high) level of focus on cash and a more conservative view on what is used to manage and report on the business, the new Executive Management team publishes a chart showing the weekly balances as shown on bank statements for the period from 1 July 2006. This chart is updated and published again today and is available at [www.morse.com](http://www.morse.com).

The Group experiences significant fluctuations in working capital requirements over the course of the year. This is particularly true in the first quarter to 30 September and the third quarter to 31 March, when the Group has historically experienced net cash outflows in those periods due to the working capital required to fund the large level of sales in the fourth and second quarters. Due to the nature of our Infrastructure Services & Technology businesses this profile is anticipated to continue in future. In order to manage this cycle of working the Group has appropriate banking facilities in place which were detailed on page 83 of the Annual Report and Accounts.

Due to the fluctuations in the cash balance management has a key performance indicator relating to the average weekly bank balance as shown by the chart. During the period to 31 December 2009 the underlying average weekly bank balance was £11.8 million (2009: £2.9 million).

### **Exceptional items**

For the first time for several reporting periods there were no exceptional items in the six months ended 31 December 2009 (2008: £5.4 million).

### **Interest**

Net interest expense during the period was £43,000. (2008: £0.5 million).

### **Taxation**

For continuing operations there was a tax charge for the period of £1.3 million (2008: tax credit of £0.2 million) consisting of a current tax charge of £1.0 million (2008: a charge of £0.2 million relating to prior periods) and a deferred tax charge of £0.3 million (2008: credit of £0.4 million).

## Earnings/Loss per share

Basic earnings per share, including discontinued operations, improved to 2.3p from a loss of 13.5p in 2008. Details can be found in Note 3.

On continuing operations, Adjusted basic earnings per share (before trading balance releases and exceptional items and with a normalised tax charge) were 1.8p (2008: loss of 0.0p).

## Key Performance Indicators (“KPIs”)

As noted in this statement, the Company uses several KPIs to monitor the performance of the business. A summary of the more important KPIs that are used together with a description of how they are calculated follows:

KPI	Metrics	Description
Gross Margin percentage	2009 18.6% 2008 20.1%	Gross Profit divided by Revenue
Adjusted EBITDA	2009 £4.6 million 2008 £2.4 million	Adjusted EBITDA are Earnings Before Interest, Tax, Depreciation, Amortisation, Share Based Payments, Trading Balance Releases and Exceptional Items
Adjusted EBIT	2009 £3.6 million 2008 £1.0 million	Adjusted EBIT are Earnings Before Interest, Tax, Trading Balance Releases and Exceptional Items.
Days Sales Outstanding (DSO)	2009 55 days 2008 68 days	The number of days invoicing represented by the period trade receivables outstanding. This provides an indication of how quickly our customers are paying their invoices.
Average Weekly Bank Balance	2009 £11.8 million 2008 £2.9 million	An average of the weekly bank balance during the year as included in the chart published on the Morse website.
Cash conversion	2009 70% 2008 (168)%	Cash generated from continuing operations divided by Adjusted EBITDA

## Outlook

The Board would like to thank all the Group's employees for their continued hard work and commitment throughout the period under review. The improvement in the fortunes of the business during the period are a direct result of this hard work and commitment.

We will continue to drive the improvement in the operating performance of the businesses and this should be demonstrated by the trailing 12 months Adjusted EBIT and Adjusted EBITDA. While we expect the market for IT services and technology to remain difficult we believe that the changes to Morse's operating model implemented by the Board, together with its ongoing strong client relationships will continue to deliver improved underlying profitability and cash generation in future.

Mike Phillips  
Chief Executive Officer  
10 February 2010

**Morse plc**  
**Consolidated income statement**  
**for the six months ended 31 December 2009**

	Note	Unaudited Six months ended 31 December 2009 £'000	Unaudited Six months ended 31 December 2008 £'000	Audited Year ended 30 June 2009 £'000
<b>Continuing operations</b>				
Group revenue	2	107,629	107,517	211,910
Cost of sales		(87,571)	(85,885)	(167,882)
Gross profit		20,058	21,632	44,028
Distribution expenses		(7,940)	(9,394)	(15,903)
Administrative expenses		(7,978)	(14,973)	(27,953)
Operating profit / (loss)	2	4,140	(2,735)	172
Analysed as:				
Operating profit before amortisation, share based payments, trading balance releases and exceptional items		4,354	1,926	6,736
Amortisation of intangible assets		(528)	(722)	(1,443)
Share based payments		(216)	(170)	(1,100)
Operating profit before trading balance releases and exceptional items		3,610	1,034	4,193
Trading balance releases		530	1,620	4,139
Operating profit before exceptional items		4,140	2,654	8,332
Exceptional items		-	(5,389)	(8,160)
		4,140	(2,735)	172
Financial income		34	142	195
Financial expenses		(77)	(615)	(741)
Net financing expense		(43)	(473)	(546)
Profit / (loss) before taxation		4,097	(3,208)	(374)
Taxation		(1,326)	195	1,725
Profit / (Loss) for the period from continuing operations		2,771	(3,013)	1,351
<b>Discontinued operations</b>				
Profit / (loss) for the period from discontinued operations	2	231	(14,540)	(13,442)
Profit / (loss) for the period		3,002	(17,553)	(12,091)
Attributable to:				
Equity holders of the parent		2,943	(17,581)	(12,098)
Minority interests		59	28	7
Profit / (loss) for the period		3,002	(17,553)	(12,091)
Dividends		-	1,665	1,665
Basic earnings / (loss) per share	3	2.3p	(13.5)p	(9.3)p
Diluted earnings / (loss) per share	3	2.2p	(13.5)p	(9.3)p
<b>Continuing operations</b>				
Basic earnings / (loss) per share	3	2.1p	(2.3)p	1.0p
Diluted earnings / (loss) per share	3	2.0p	(2.3)p	1.0p

**Morse plc**  
**Consolidated statement of comprehensive income**  
**for the six months ended 31 December 2009**

	<b>Unaudited</b> <b>Six months ended</b> <b>31 December</b> <b>2009</b> <b>£'000</b>	<b>Unaudited</b> <b>Six months ended</b> <b>31 December</b> <b>2008</b> <b>£'000</b>	<b>Audited</b> <b>Year ended</b> <b>30 June</b> <b>2009</b> <b>£'000</b>
Profit / (loss) for the period	<b>3,002</b>	(17,553)	(12,091)
Exchange difference on translation of foreign operations	<b>839</b>	3,702	1,632
<b>Total comprehensive income / (expense) for the period</b>	<b>3,841</b>	(13,851)	(10,459)
Attributable to:			
Equity holders of the parent	<b>3,763</b>	(13,879)	(10,466)
Minority interest	<b>78</b>	28	7
<b>Total comprehensive income / (expense) for the period</b>	<b>3,841</b>	(13,851)	(10,459)

**Morse plc**  
**Consolidated statement of financial position**  
**as at 31 December 2009**

	<i>Note</i>	Unaudited 31 December 2009	Unaudited 31 December 2008	Audited 30 June 2009
<b>Assets</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>				
Property, plant and equipment		711	1,842	982
Goodwill		28,603	28,603	28,603
Other intangibles		2,733	4,029	3,229
Deferred tax assets		914	1,183	1,119
Other receivables		1,785	1,866	2,415
<b>Total non-current assets</b>		<b>34,746</b>	<b>37,523</b>	<b>36,348</b>
<b>Current assets</b>				
Inventories		3,173	1,935	2,575
Trade and other receivables	4	72,730	70,363	53,661
Cash and cash equivalents		14,132	5,891	12,140
		<b>90,035</b>	<b>78,189</b>	<b>68,376</b>
Assets classified as held for sale		-	1,430	1,931
<b>Total current assets</b>		<b>90,035</b>	<b>79,619</b>	<b>70,307</b>
<b>Total assets</b>		<b>124,781</b>	<b>117,142</b>	<b>106,655</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		(486)	(2,115)	(455)
Trade and other payables	5	(54,920)	(47,858)	(39,255)
Tax payable		(3,544)	(7,547)	(3,182)
Deferred consideration		(457)	(606)	(524)
Interest creditor		(1,806)	(1,924)	(1,978)
Deferred income		(15,180)	(14,222)	(13,025)
Provisions		(1,455)	(1,307)	(2,475)
		<b>(77,848)</b>	<b>(75,579)</b>	<b>(60,894)</b>
Liabilities classified as held for sale		-	(1,384)	(1,752)
<b>Total current liabilities</b>		<b>(77,848)</b>	<b>(76,963)</b>	<b>(62,646)</b>
<b>Non-current liabilities</b>				
Borrowings		(35)	-	(293)
Deferred consideration		(187)	(660)	(484)
Deferred tax liability		-	(426)	-
Deferred Income		(2,217)	(2,168)	(2,643)
Provisions		(487)	(593)	(384)
<b>Total non-current liabilities</b>		<b>(2,926)</b>	<b>(3,847)</b>	<b>(3,804)</b>
<b>Net assets</b>		<b>44,007</b>	<b>36,332</b>	<b>40,205</b>
<b>Capital and reserves</b>				
Called up share capital	6	15,936	15,935	15,935
Share capital to be issued	6	-	194	-
Share premium account	6	22,908	70,790	70,790
Other reserves	6	3,637	37,428	2,817
Own shares	6	(984)	-	(984)
Retained earnings	6	2,510	(88,357)	(48,649)
<b>Total equity attributable to equity shareholders</b>		<b>44,007</b>	<b>35,990</b>	<b>39,909</b>
Minority interest	6	-	342	296
<b>Total equity</b>		<b>44,007</b>	<b>36,332</b>	<b>40,205</b>

**Morse plc**  
**Consolidated cash flow statement**  
**for the six months ended 31 December 2009**

	Unaudited Six months ended 31 December 2009 £'000	Unaudited Six months ended 31 December 2008 £'000	Audited Year ended 30 June 2009 £'000
<b>Cash flows from operating activities</b>			
Profit/(loss) for the period after tax	3,002	(17,553)	(12,091)
Adjustments for:			
Depreciation	303	688	1,268
Amortisation	528	790	1,512
Financial income	(40)	(170)	(237)
Financial expenses	77	615	754
Profit on sale of discontinued operations	-	-	(652)
Impairment of goodwill and intangibles	-	13,795	13,721
Loss on sale of property, plant and equipment	82	-	629
Share based payments	216	751	1,100
Taxation	1,424	(190)	(2,503)
Operating profit before changes in working capital and provisions	5,592	(1,274)	3,501
Increase in inventories	(585)	(487)	(1,145)
(Increase) / decrease in trade and other receivables	(17,984)	8,147	23,266
Increase / (decrease) in trade and other payables	17,375	(10,869)	(20,536)
(Decrease) / increase in provisions	(1,170)	464	1,675
<b>Cash generated from / (absorbed by) operations</b>	<b>3,228</b>	<b>(4,019)</b>	<b>6,761</b>
Interest received	40	170	237
Interest paid	(34)	(235)	(280)
Tax paid	(864)	(880)	(3,719)
<b>Net cash generated from / (absorbed by) operating activities</b>	<b>2,370</b>	<b>(4,964)</b>	<b>2,999</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	(58)	(223)	(466)
Proceeds from sale of property, plant and equipment	-	26	-
Acquisition of intangibles (software and development)	(24)	(101)	(119)
Purchase of own shares for the EBT	-	(494)	(494)
Disposal of businesses, net of cash disposed	(764)	-	652
<b>Net cash from investing activities</b>	<b>(846)</b>	<b>(792)</b>	<b>(427)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares	2	-	-
Repayment of loan notes on previous acquisitions	-	(24)	(122)
Proceeds from customer specific financing	-	4,532	4,532
Repayment of customer specific financing	(227)	(2,417)	(3,784)
Dividends paid	-	(1,665)	(1,665)
<b>Net cash from financing activities</b>	<b>(225)</b>	<b>426</b>	<b>(1,039)</b>
Net increase / (decrease) in cash and cash equivalents	1,299	(5,330)	1,533
Opening cash and cash equivalents	12,754	11,078	11,078
Effect of exchange rate fluctuations on cash	79	143	143
<b>Closing cash and cash equivalents</b>	<b>14,132</b>	<b>5,891</b>	<b>12,754</b>
Cash and cash equivalents attributable to continuing operations	14,132	5,891	12,140
Cash and cash equivalents attributable to discontinued operations	-	-	614
<b>Closing cash and cash equivalents</b>	<b>14,132</b>	<b>5,891</b>	<b>12,754</b>

**Morse plc**  
**Notes to the Financial Statements**  
**for the six months ended 31 December 2009**

**1 Basis of preparation, Going concern and Accounting policies**

The consolidated interim financial information for the six months ended 31 December 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim financial reporting" as adopted by the European Union. Other than as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2009, which have been prepared in accordance with IFRSs as adopted by the European Union, and the consolidated interim financial information should be read in conjunction with the annual financial statements. The annual financial statements for the year ended 30 June 2009 have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

The Directors have reviewed the Group's future cash forecasts and revenue projections, which they believe are based on prudent market data and past experience, and have formed a judgement that at the time of approving these financial statements, based on those forecasts and projections, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis is adopted in preparing these accounts.

In the six months ended 31 December 2009 there were no exceptional items and as at 31 December 2009 there were no assets or liabilities classified as held for sale.

The following new standards, interpretations and amendments to standards were effective during the period to 31 December 2009 and have been adopted in this interim financial information.

- IFRS 8, "Operating Segments" – The standard replaced IAS 14 "Segment Reporting", and aligns operating segments reported to those segments reported internally to senior management. The basis for the segments under IFRS 8 is set out in note 2. The standard does not change the recognition, measurement or disclosure of transactions in the consolidated financial statements.
- IAS 1 (Revised) "Presentation of financial statements" – The amendment requires "non-owner" and "owner" changes in equity to be presented separately. It also requires that where a balance sheet is restated that the opening balance sheet is also disclosed. Entities can also choose whether to present one or two performance statements. The Group has chosen to present two performance statements. A further impact of the amendment is that the primary statements have been renamed.
- IFRS 2 (Amendment), "Share-based payment" – The amendment to the standard limits vesting conditions to service conditions and performance conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, i.e. acceleration of the expense based on the grant date fair value. This amendment had no material impact on the Group's consolidated interim financial information.

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**2 Segmental reporting**

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker. Morse plc has identified its Board of Directors as the Chief Operating Decision Maker as it is responsible for the allocation of resources to operating segments and assessing their performance. Operating segments are consistent with those used in internal management reporting. The Group's primary reporting format is business segments and its secondary format is geographical segments.

**Period ended 31 December 2009**

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Spain £'000	Infrastructure Services & Technology Ireland £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Investment Management Consulting) £'000	Total £'000
<b>Revenue</b>								
Sales to external customers	58,447	24,853	10,297	14,032	-	107,629	1,207	108,836
Inter-segment sales	1,955	-	-	307	-	2,262	-	2,262
<b>Segmental revenue</b>	<b>60,402</b>	<b>24,853</b>	<b>10,297</b>	<b>14,339</b>	<b>-</b>	<b>109,891</b>	<b>1,207</b>	<b>111,098</b>
Operating profit / (loss) before amortisation, share based payments, trading balance releases and exceptional items	3,833	1,100	489	198	(1,266)	4,354	323	4,677
Amortisation of intangible assets	-	(10)	(6)	(14)	(498)	(528)	-	(528)
Share based payments	-	-	-	-	(216)	(216)	-	(216)
Operating profit / (loss) before trading balance releases	3,833	1,090	483	184	(1,980)	3,610	323	3,933
Trading balance releases	-	-	-	-	530	530	-	530
Operating profit / (loss)	3,833	1,090	483	184	(1,450)	4,140	323	4,463
Net financing (expense) / income						(43)	6	(37)
Taxation						(1,326)	(98)	(1,424)
<b>Profit for the period</b>						<b>2,771</b>	<b>231</b>	<b>3,002</b>

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**2 Segmental reporting (continued)**

**Period ended 31 December 2008**

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Spain £'000	Infrastructure Services & Technology Ireland £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Investment Management Consulting) £'000	Total £'000
<b>Revenue</b>								
Sales to external customers	57,236	22,700	6,605	20,976	-	107,517	6,835	114,352
Inter-segment sales	166	-	-	390	-	556	727	1,283
Segmental revenue	57,402	22,700	6,605	21,366	-	108,073	7,562	115,635
Operating profit / (loss) before amortisation, share based payments, trading balance releases and exceptional items	3,011	147	(97)	1,043	(2,178)	1,926	47	1,973
Amortisation of intangible assets	-	(19)	-	(121)	(582)	(722)	-	(722)
Share based payments	-	-	-	-	(170)	(170)	-	(170)
Operating profit / (loss) before trading balance releases and exceptional items	3,011	128	(97)	922	(2,930)	1,034	47	1,081
Trading balance releases	-	-	-	-	1,620	1,620	-	1,620
Operating profit / (loss) before exceptional items	3,011	128	(97)	922	(1,310)	2,654	47	2,701
Exceptional items	(1,773)	(393)	(104)	(1,341)	(1,778)	(5,389)	(14,610)	(19,999)
Operating profit / (loss)	1,238	(265)	(201)	(419)	(3,088)	(2,735)	(14,563)	(17,298)
Net financing (expense) / income						(473)	28	(445)
Taxation						195	(5)	190
<b>Loss for the period</b>						<b>(3,013)</b>	<b>(14,540)</b>	<b>(17,553)</b>

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**2 Segmental reporting (continued)**

**Year ended 30 June 2009**

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Spain £'000	Infrastructure Services & Technology Ireland £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinue d Operations (Investment Managemen t Consulting) £'000	Total £'000
<b>Revenue</b>								
Sales to external customers	114,239	44,710	12,689	40,272	-	211,910	10,417	222,327
Inter-segment sales	1,559	-	10	508	-	2,077	927	3,004
Segmental revenue	115,798	44,710	12,699	40,780	-	213,987	11,344	225,331
Operating profit / (loss) before amortisation, share based payments, trading balance releases and exceptional items	7,205	182	47	2,637	(3,335)	6,736	61	6,797
Amortisation of intangible assets	-	(35)	(4)	(240)	(1,164)	(1,443)	-	(1,443)
Share based payments	-	-	-	-	(1,100)	(1,100)	-	(1,100)
Operating profit / (loss) before trading balance releases and exceptional items	7,205	147	43	2,397	(5,599)	4,193	61	4,254
Trading balance Releases	-	-	-	-	4,139	4,139	-	4,139
Operating profit / (loss) before exceptional items	7,205	147	43	2,397	(1,460)	8,332	61	8,393
Exceptional items	(2,320)	(1,589)	(196)	(2,843)	(1,212)	(8,160)	(14,962)	(23,122)
Operating profit / (loss)	4,885	(1,442)	(153)	(446)	(2,672)	172	(14,901)	(14,729)
Net financing (expense) / income						(546)	29	(517)
Exceptional profit on disposal of discontinued operations						-	652	652
Taxation						1,725	778	2,503
<b>Profit / (loss) for the period</b>						<b>1,351</b>	<b>(13,442)</b>	<b>(12,091)</b>

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**3 Earnings per share**

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares.

Reconciliation of the earnings and weighted average number of shares used in the calculation are set out below:

	Unaudited Six months ended 31 December 2009			Unaudited Six months ended 31 December 2008			Audited Year ended 30 June 2009		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>									
Profit / (loss) attributable to Ordinary shareholders	2,943	129,868	2.3	(17,581)	129,791	(13.5)	(12,098)	129,829	(9.3)
Effect of dilutive securities options	-	6,508	(0.1)	-	-	-	-	-	-
<b>Diluted EPS</b>	2,943	136,376	2.2	(17,581)	129,791	(13.5)	(12,098)	129,829	(9.3)

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**3 Earnings per share (continued)**

To provide a comparable measure of performance per share from the normal operations of the business, a supplementary EPS has been calculated in addition to the disclosure required by IAS 33 with the following adjustments to the basic and diluted EPS:

	Unaudited Six months ended 31 December 2009			Unaudited Six months ended 31 December 2008			Audited Year ended 30 June 2009		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>	<b>2,943</b>	<b>129,868</b>	<b>2.3</b>	(17,581)	129,791	(13.5)	(12,098)	129,829	(9.3)
Effect of Trading credit balances (net of tax)	(382)		(0.3)	(1,167)		(0.9)	(2,980)		(2.3)
Effect of exceptional items (net of tax):									
- Impairment charge	-		-	13,795		10.6	13,721		10.6
- Dilapidations	-		-	-		-	510		0.4
- Restructuring costs	-		-	4,467		3.4	5,814		4.4
- Exceptional items	-		-	-		-	(1,180)		(0.9)
Normalisation of tax charge	-		-	236		0.2	(630)		(0.5)
<b>Adjusted Basic EPS</b>	<b>2,561</b>	<b>129,868</b>	<b>2.0</b>	(250)	129,791	(0.2)	3,157	129,829	2.4
<b>Diluted EPS</b>	<b>2,943</b>	<b>136,376</b>	<b>2.2</b>	(17,581)	129,791	(13.5)	(12,098)	129,829	(9.3)
Effect of Trading credit balances (net of tax)	(382)		(0.3)	(1,167)		(0.9)	(2,980)		(2.3)
Effect of exceptional items (net of tax):									
- Impairment charge	-		-	13,795		10.6	13,721		10.6
- Dilapidations	-		-	-		-	510		0.4
- Restructuring costs	-		-	4,467		3.4	5,814		4.4
- Exceptional items	-		-	-		-	(1,180)		(0.9)
Normalisation of tax charge	-		-	236		0.2	(630)		(0.5)
<b>Adjusted Diluted EPS</b>	<b>2,561</b>	<b>136,376</b>	<b>1.9</b>	(250)	129,791	(0.2)	3,157	129,829	2.4

The tax charge used for the Adjusted EPS calculations has been adjusted to reflect a full tax charge on the adjusted profit before tax, thus removing the effects of tax adjustments in any one year that relate to prior periods.

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**3 Earnings per share (continued)**

**Continuing operations**

Basic earnings per share of 2.1p (2008: loss of 2.3p) for continuing operations is calculated from the net profit attributable to equity holders of the parent from continuing operations of £2,771,000 (2008: loss of £3,013,000) divided by the weighted average number of Ordinary shares in issue during the period.

	Unaudited Six months ended 31 December 2009			Unaudited Six months ended 31 December 2008			Audited Year ended 30 June 2009		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>									
Profit / (loss) attributable to Ordinary shareholders	2,771	129,868	2.1	(3,013)	129,791	(2.3)	1,351	129,829	1.0
Effect of dilutive securities options	-	6,508	(0.1)	-	-	-	-	-	-
Effect of deferred consideration to be issued within one year	-	-	-	-	-	-	-	733	-
<b>Diluted EPS</b>	<b>2,771</b>	<b>136,376</b>	<b>2.0</b>	<b>(3,013)</b>	<b>129,791</b>	<b>(2.3)</b>	<b>1,351</b>	<b>130,562</b>	<b>1.0</b>

To provide a comparable measure of performance per share from the continuing operations of the business, a supplementary EPS has been calculated in addition to the disclosure required by IAS 33 with the following adjustments to the basic and diluted EPS:

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**3 Earnings per share (continued)**

	Unaudited Six months ended 31 December 2009			Unaudited Six months ended 31 December 2008			Audited Year ended 30 June 2009		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>	<b>2,771</b>	<b>129,868</b>	<b>2.1</b>	(3,013)	129,791	(2.3)	1,351	129,829	1.0
Effect of Trading credit balances (net of tax)	(382)		(0.3)	(1,167)		(0.9)	(2,980)		(2.3)
Effect of exceptional items (net of tax):									
- Dilapidations	-		-	-		-	504		0.4
- Restructuring costs	-		-	3,880		3.0	5,286		4.1
- Exceptional items	-		-	-		-	(1,180)		(0.9)
Normalisation of tax charge	-		-	236		0.2	(355)		(0.3)
<b>Adjusted Basic EPS</b>	<b>2,389</b>	<b>129,868</b>	<b>1.8</b>	(64)	129,791	(0.0)	2,626	129,829	2.0
<b>Diluted EPS</b>	<b>2,771</b>	<b>136,376</b>	<b>2.0</b>	(3,013)	129,791	(2.3)	1,351	130,562	1.0
Effect of Trading credit balances (net of tax)	(382)		(0.3)	(1,167)		(0.9)	(2,980)		(2.3)
Effect of exceptional items (net of tax):									
- Dilapidations	-		-	-		-	504		0.4
- Restructuring costs	-		-	3,880		3.0	5,286		4.1
- Exceptional items	-		-	-		-	(1,180)		(0.9)
Normalisation of tax charge	-		-	236		0.2	(355)		(0.3)
<b>Adjusted Diluted EPS</b>	<b>2,389</b>	<b>136,376</b>	<b>1.8</b>	(64)	129,791	(0.0)	2,626	130,562	2.0

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**4 Trade and other receivables**

	<b>Unaudited 31 December 2009 £'000</b>	<b>Unaudited 31 December 2008 £'000</b>	<b>Audited 30 June 2009 £'000</b>
Trade receivables and other receivables	57,009	56,995	39,662
Tax and social security recoverable	493	4	164
Prepayments and accrued income	15,228	13,364	13,835
	<b>72,730</b>	<b>70,363</b>	<b>53,661</b>

**5 Trade and other payables**

	<b>Unaudited 31 December 2009 £'000</b>	<b>Unaudited 31 December 2008 £'000</b>	<b>Audited 30 June 2009 £'000</b>
Trade payables	43,865	34,190	28,286
Accruals	7,013	7,726	7,578
Tax and social security payable	3,769	4,591	2,974
Other payables	273	1,351	417
	<b>54,920</b>	<b>47,858</b>	<b>39,255</b>

**Notes to the Financial Statements  
for the six months ended 31 December 2009**

**6 Consolidated statement of changes in equity (Unaudited)**

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Foreign currency translation reserve £'000	Total other reserves £'000	Retained earnings £'000	Reserve for own shares £'000	Minority interest £'000	Total £'000
<b>At 1 July 2009</b>	15,935	70,790	168	2,649	2,817	(48,649)	(984)	296	40,205
<b>Total comprehensive income for the period</b>									
Profit for the period	-	-	-	-	-	2,943	-	59	3,002
<b>Other comprehensive income</b>									
Gain on translation of foreign subsidiaries	-	-	-	820	820	-	-	19	839
<b>Total comprehensive income for the period</b>	-	-	-	820	820	2,943	-	78	3,841
<b>Transactions with owners</b>									
Issue of shares	1	-	-	-	-	-	-	-	1
Deferred tax on share option charge	-	-	-	-	-	118	-	-	118
Share option charge	-	-	-	-	-	216	-	-	216
Share of loss on disposal of minority interest	-	-	-	-	-	-	-	(374)	(374)
Capital reduction	-	(47,882)	-	-	-	47,882	-	-	-
<b>At 31 December 2009</b>	15,936	22,908	168	3,469	3,637	2,510	(984)	-	44,007

Following shareholder and court approval of the capital reduction in November 2009, £47,882,000 has been transferred from the Share premium account to Retained earnings.

**7 Related Party Transactions**

In the six months ended 31 December 2009 the Group disposed of a 51% shareholding in CSTIM Australia and a 60% shareholding in CSTIM France. All transactions with these companies up to the date of disposal and other group companies are in the normal course of trading and include recharges of centrally negotiated costs.

Compensation of key management personnel was for the six months ended 31 December 2009 £1.1m (2008: £1.1m).

## **Independent review report to Morse plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2009 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

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### **for and on behalf of KPMG Audit Plc**

*Chartered Accountants*  
8 Salisbury Square  
London  
EC4Y 8BB

10 February 2010

## Directors' responsibility

The directors confirm that this set of consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the financial statements, and
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Morse plc at the date of this interim management report are:

Kevin Loosemore	- Non-Executive Chairman
Richard Atkins	- Non-Executive Director
Paul Shelton	- Non-Executive Director
Mike Phillips	- Chief Executive Officer
Guy Millward	- Group Finance Director

By order of the Board

Mike Phillips  
Chief Executive Officer

Guy Millward  
Group Finance Director

10 February 2010