

Morse plc
Preliminary Results for the Year Ended
30 June 2009

9 September 2009

Mike Phillips, Chief Executive Officer
Guy Millward, Group Finance Director

Business and Operating Review FY 2009

Mike Phillips
Chief Executive Officer

- **Management & Organisation Restructured**

- New 'top-team'
- Refocus business units
- Exit consultancy business

- **Financial Stability Achieved**

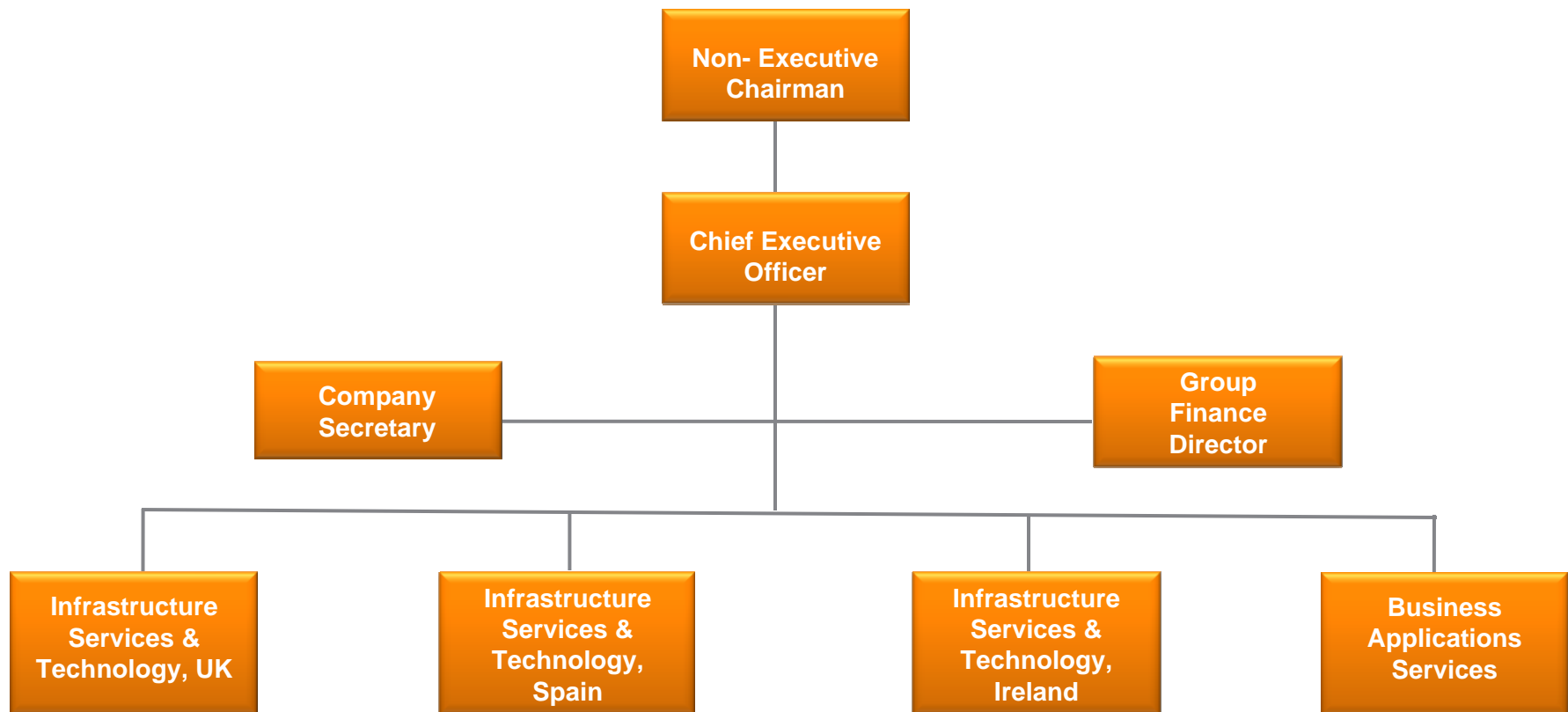
- Ended the year with more cash in the bank than we started
- Cash generated from continuing operations 89% of Adjusted EBITDA (2008: 47%)
- Secured appropriate bank facilities
- Focus on basic disciplines

- **Improvement in Underlying Profitability**

- Benefit of restructuring demonstrated by Adjusted EBIT performance in Q4
- Dealt with legacy issues
- Global economic backdrop

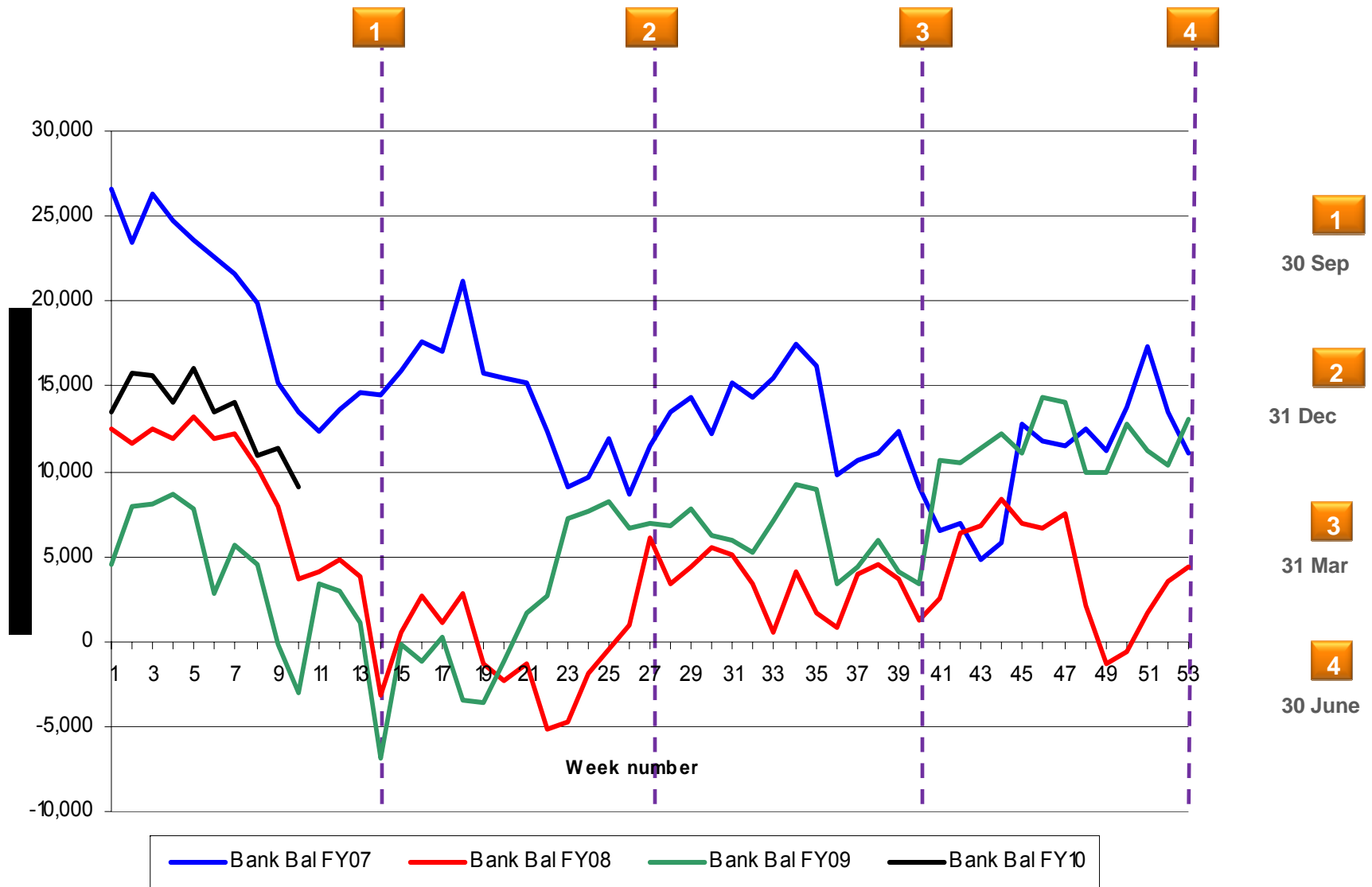
- **Dividend**

- No dividend due to lack of distributable reserves in Parent Company
- Board has reviewed options to enable declaration of future dividends
- Court sanctioned capital reduction scheme to be proposed at AGM



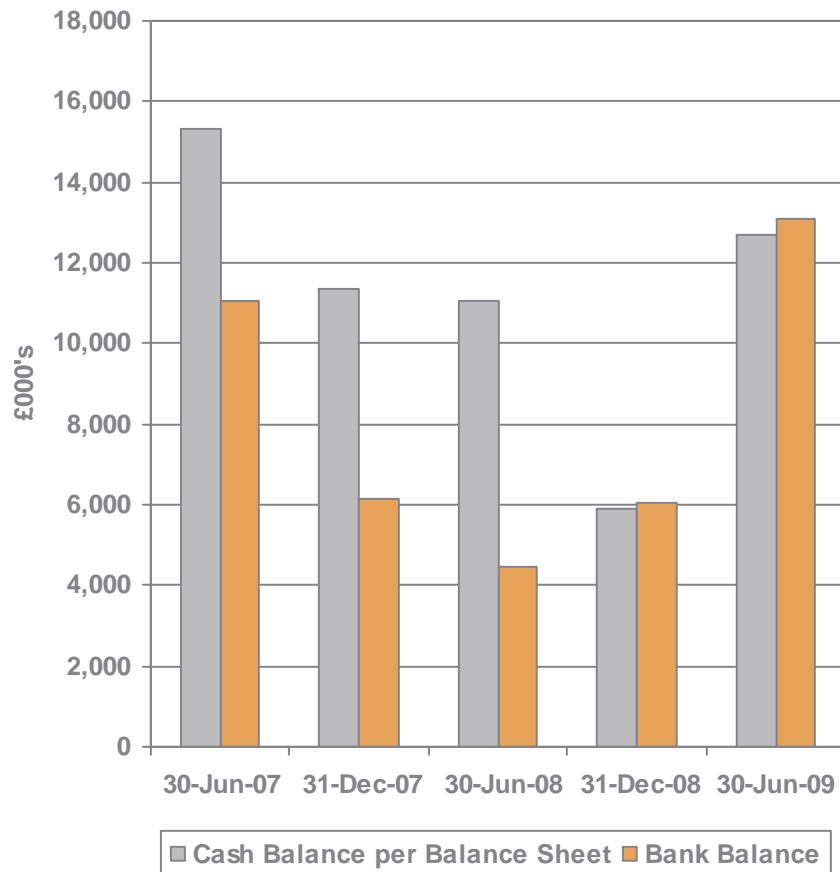
Financial Stability Achieved

Working Capital Cycle



Financial Stability Achieved Cash Balance vs. Bank Balance

Cash Balance vs. Bank Balance



- From 30 September 2008 Morse has implemented more rigorous period end processes
- Cash balance is now in line with bank balance
- Group year end cash position of £12.7 m, of which £0.6 m held in assets held for resale
- Net Group cash of £12.0 m after Customer Specific Financing of £0.7 m

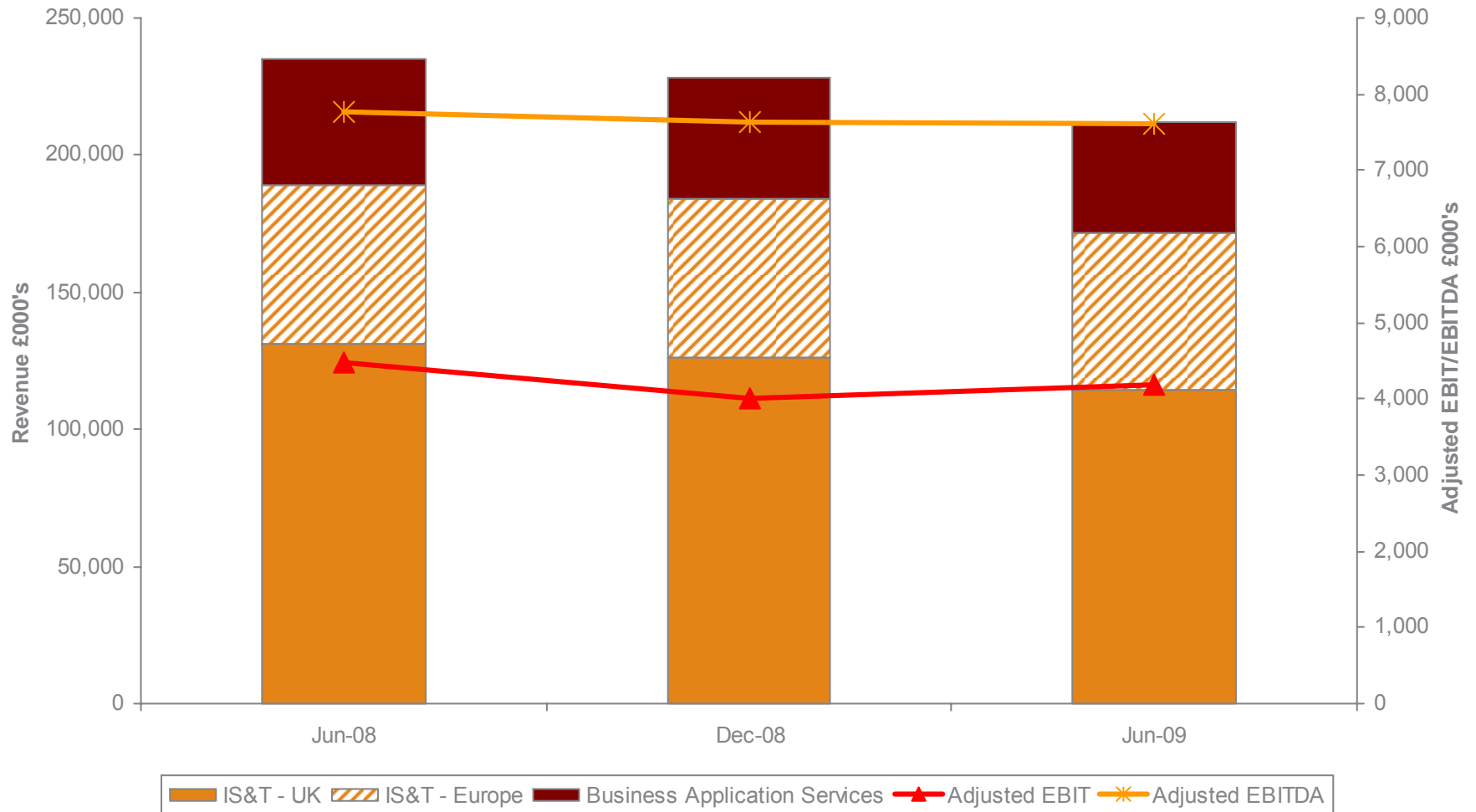
- **Improved performance of UK based business**
 - IS&T UK focusing on core propositions
 - BAS business dealt with historic problem projects
- **European business impacted by local economic problems**
 - Spain and Ireland are two of the poorest performing European Economies
 - Committed management teams taking necessary actions to align cost base with economic outlook
 - Benefits of restructuring in Spain evidenced in final quarter
- **IMC business classified as discontinued operations**
 - Disposal of UK and Jersey business formerly known as CSTIM to Navigant Consulting
 - Remaining businesses now closed or sold to management (French sale subject to shareholder approval)

Improvement in Underlying Profitability Full Year Performance

	Revenue		Operating Profit before exceptional items		Margin %	
	FY09	FY08	FY09	FY08	FY09	FY08
	£m	£m	£m	£m		
Infrastructure Services & Technology:						
• UK	114.2	131.4	7.2	6.4	6.3%	4.9%
• Europe	57.4	57.8	0.2	2.9	0.3%	5.0%
Business Applications Services	40.3	46.1	2.4	0.3	6.0%	0.7%
Continuing operations	211.9	235.3	9.8	9.6	4.6%	4.1%
Group costs			(5.6)	(5.1)		
Adjusted EBIT			4.2	4.5	2.0%	1.9%
Trading balance releases			4.1	4.2		
Continuing operations	211.9	235.3	8.3	8.7	3.9%	3.7%
Discontinued operations						
• IMC	10.4	18.0	0.1	2.4	1.0%	13.3%
Total	222.3	253.3	8.4	11.1	3.8%	4.4%

Improvement in Underlying Profitability

Trailing 12 Months



Improvement in Underlying Profitability

Group Costs

	FY09 £'000	FY08 £'000
Group and Central Functions	2,881	3,576
Depreciation	154	221
Amortisation	1,164	1,641
Share Option costs	1,100	346
Sub-total	5,299	5,784
Forex loss/(gain)	300	(686)
Group costs	5,599	5,098

- Cash costs of Group and Central Functions reduced from £3.6 m to £2.9 m
- Foreign exchange movements on inter group funding in Euros gives rise to the majority of the Forex loss/(gain)

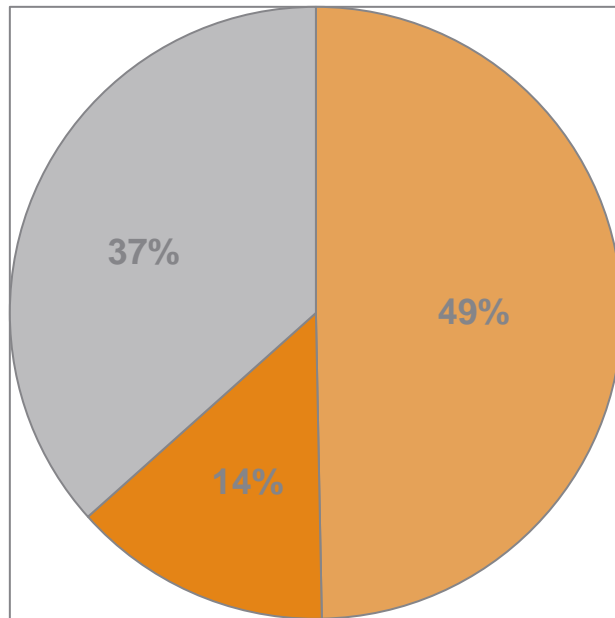
Improvement in Underlying Profitability Restructuring

	FY09 Cont £'000	FY09 Disc £'000	FY09 Total £'000
Headcount related	5,221	758	5,979
Property and IT	1,776	191	1,967
Legal and professional	1,027	30	1,057
Share Option costs	616	-	616
Restructuring costs	8,640	979	9,619

- Consolidated Central London property, reduce property space in BAS and Spain
- Reduced Group activities
- Reduced business unit overhead
- Reduced fragmentation of chargeable resource
- Morse in Education Sales and Management team made redundant
- Restructuring costs recouped within the year, offset by reduction in revenue and gross profit

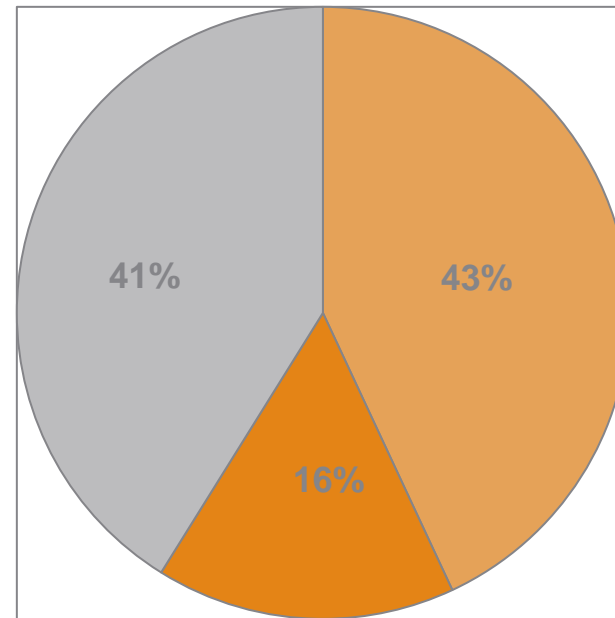
Revenue Breakdown

FY 2009
Group



- Resale
- Maintenance and Support (including Wisdom)
- Services

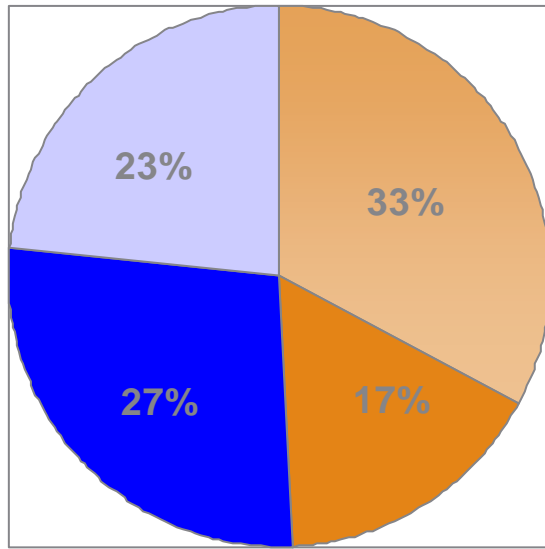
FY 2009
UK source revenue



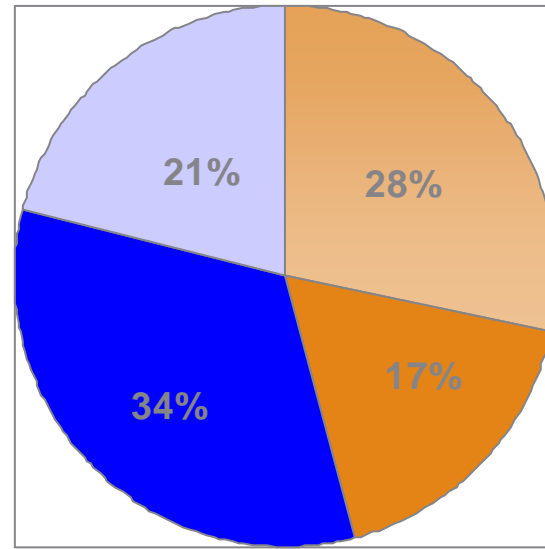
- Resale
- Maintenance and Support (including Wisdom)
- Services

Group Resale Revenue - by Vendor

FY 2008



FY 2009



Financial Review FY 2009

Guy Millward
Group Finance Director

Financial Headlines (Continuing Operations)

- Revenue £211.9 m (2008: £235.3 m)
- Adjusted EBITDA £7.6 m (2008: £7.8 m)
- Adjusted EBIT £4.2 m (2008: £4.5 m)
- Adjusted basic earnings per share 2.0p (2008: 2.2p)
- Net exceptional costs of £8.16 m (2008: £13.40 m)
 - Restructuring costs of £8.64 m (2008: £nil), cash costs of £5.9 m
 - Dilapidation charges of £0.7 m (2008: £nil)
 - Credits of £1.18 m relating to forfeiture of share based payments and reversal of fair value adjustments
 - Impairment of Goodwill and Intangible assets £nil (2008: £13.4 m)
- Cash less Customer Specific Financing £12.0 m (2008: £11.1 m)
 - Cash of £12.7 m (2008: £11.1 m), of which £0.6 m held in assets held for resale
 - Customer Specific Financing of £0.7 m (2008: £nil)

	FY09		FY08 (restated)		% change
	£m		£m		
Continuing operations					
Revenue	211.9		235.3		(9.9)%
Gross profit	44.0		52.0		(15.4)%
Adjusted EBIT before Group Costs	9.8		9.6		2.1%
Group Costs	(5.6)		(5.1)		9.8%
Adjusted EBIT	4.2		4.5		(6.7)%
Trading balance releases	4.1		4.2		(2.4)%
Operating Profit before exceptional items	8.3		8.7		(4.6)%
Exceptional items – restructuring costs	(8.1)		(13.4)		
Operating profit/(loss)	0.2		(4.7)		
Interest	(0.5)		(0.5)		
Loss before tax	(0.3)		(5.2)		
Taxation	1.7		(1.3)		
Profit/(Loss) after taxation from continuing operations	1.4		(6.5)		
(Loss)/Profit from Discontinued Operations	(13.5)		1.8		
Loss for the period	(12.1)		(4.7)		

	FY09 £m		FY08 £m
Cash generated from continuing operations	6.8		3.6
Cash generated from discontinued operations	-		3.7
Cash generated from operations	6.8		7.3
Net Interest & Tax Paid	(3.8)		(2.5)
Net Capital spend	(0.6)		(0.7)
Purchase of shares for EBT	(0.5)		(0.4)
Disposal of business	0.7		-
Acquisition spend	-		(1.7)
Repayment of loan notes issued on previous acquisitions	(0.1)		(0.1)
Proceeds from Customer Specific Financing	4.5		-
Repayment of Customer Specific Financing	(3.8)		-
Dividend paid	(1.7)		(6.2)
Net increase/(decrease) in cash and cash equivalents	1.5		(4.3)
Opening cash and cash equivalents	11.1		15.3
Effect of Exchange Rate Fluctuations on cash held	0.1		0.1
Closing cash and cash equivalents	12.7		11.1
Customer Specific Financing	(0.7)		-
Cash less Customer Specific Financing	12.0		11.1
Cash and cash equivalents attributable to continuing operations	12.1		11.1
Cash and cash equivalents attributable to discontinued operations	0.6		-
Closing cash and cash equivalents	12.7		11.1

Adjusted EBITDA and Cash Conversion from Continuing Operations

	FY09		FY08
	£m		£m
Operating profit before exceptional items	8.3		8.7
Less:			
Trading balance releases	(4.1)		(4.2)
Adjusted EBIT	4.2		4.5
Add back:			
Depreciation and Amortisation	2.3		3.0
Share based payments	1.1		0.3
Adjusted EBITDA	7.6		7.8
Cash generated from continuing operations	6.8		3.6
Cash conversion percentage	89%		47%

Banking Facilities

- Principal banking facilities are with the Royal Bank of Scotland plc
 - £6.5 m committed multi currency Revolving Credit Facility (“RCF”)
 - 2% over LIBOR
 - £1.0 m multi currency overdraft
 - 2% over Base Rate
- The RCF committed to 31 March 2011 and has covenants that relate to
 - Gearing (Gross Borrowings to shareholder funds)
 - Interest cover (PBIT to Borrowing costs)
 - Leverage (Gross Borrowings to EBITDA)
 - PBIT and EBITDA covenants take account of £6 m of cash restructuring costs during the FY 2009 with reduced amounts taken into account for covenant tests in FY 2010

Customer Specific Financing

- At 30 June 2009 £0.7m of CSF was outstanding
 - During the period from 30 June 2008 to 30 September 2008 the Group entered into two Customer Specific Financing arrangements with IBM Global Financing
 - These arrangements are normal within Infrastructure Service & Technology businesses and provide benefits to each party
 - The Group will continue to review the suitability of CSF for new sales opportunities

- Contracts exchanged on 9 February 2009 for disposal of UK and Jersey IMC business to Navigant Consulting. Transaction completed on 3 April 2009
- Initial cash consideration received by Morse was £1.3 m
 - No deferred consideration was paid
- Remaining businesses (Skillshub, Australia, France, Luxembourg and South Africa) either closed down or sold to Management (subject to shareholder approval in the case of France)
- As a result of the sale there is an impairment to goodwill on Morse's consolidated balance sheet, relating to the IMC business unit, of £13.7 m
- There has also been a write down of a similar amount in the carrying value of the investment in Morse plc's company balance sheet

- Morse plc's Company Balance Sheet has a deficit on its profit and loss reserve of £47.9 m and net assets of £38.0 m following write downs of Fixed Asset Investments
- Company is unable to declare a dividend
- Board have reviewed available options and recommend that a Court Sanctioned Capital Reduction process be proposed to eliminate deficit on Distributable Reserves
 - Details will be provided in the Notice of Annual General Meeting
 - 22 October 2009 – AGM where Shareholders will be asked to approve the Capital Reduction.
 - 30 November 2009 – Latest date by when Court approval of Capital Reduction
 - Dividend may then be paid out of future profits from date of Court Approval
- Preliminary Results for FY 2010 will indicate the dividend policy to be adopted

- Most ongoing open tax enquiries to 30 June 2007 closed in the year
 - 1 small matter remaining
 - £2.1 m paid in January 2009 in respect of settled years
 - FY09 tax charge includes a £3.2 m credit relating to the reversal of tax provisions no longer required
- Year ended 30 June 2008 tax computations submitted in June 2009
- 30 June 2009 creditor relates to 2009 liability plus 2002-4 'M&S' claim
- Three years ended 30 June 2004 (Marks & Spencer European Tax losses case)
 - £3.0m of tax provided in full
 - Decision unlikely until 2010
 - Interest accrual of £1.2 m
- Interest creditor of £2.0 m at 30 June 2009 for M&S and other items
 - In light of the materiality of the amounts involved, the Board decided at the half year that a Prior Year Adjustment should be made
 - Ensures results for the current period is not distorted
 - Prior period have the correct amount of interest included

Summary

Mike Phillips
Chief Executive Officer

Our stated challenge for FY 2009 was to improve operational efficiency & execution in order to improve the quality of earnings and cash generation.

- Renewed focus on simplicity with four independent business units
- Renewed focus on execution
- Addressing the issues that impacted trading in FY 2008
- Cost reduction programme
- Cash generation and extension of appropriate bank facilities
- Strengthen internal control and corporate governance
- Focus on core activities

- Focus remains on Execution
- Basic management disciplines
 - Cash control
 - Expense management
 - Opportunity and pipeline management
 - Project controls and disciplines
 - Utilisation management
- Focus businesses as niche providers in their markets
- Deliver benefits of restructuring
- Trailing 12 months figures of Adjusted EBIT and Adjusted EBITDA key indicator of continued recovery in underlying businesses

Q&A

- Consolidated balance sheet
- Cash generated from operations
- Group Revenue, Gross Margin and Adjusted EBIT
- Business Unit Charts
- Exceptional Items
- Group Headcount
- Trading balance policy, definitions and going forward

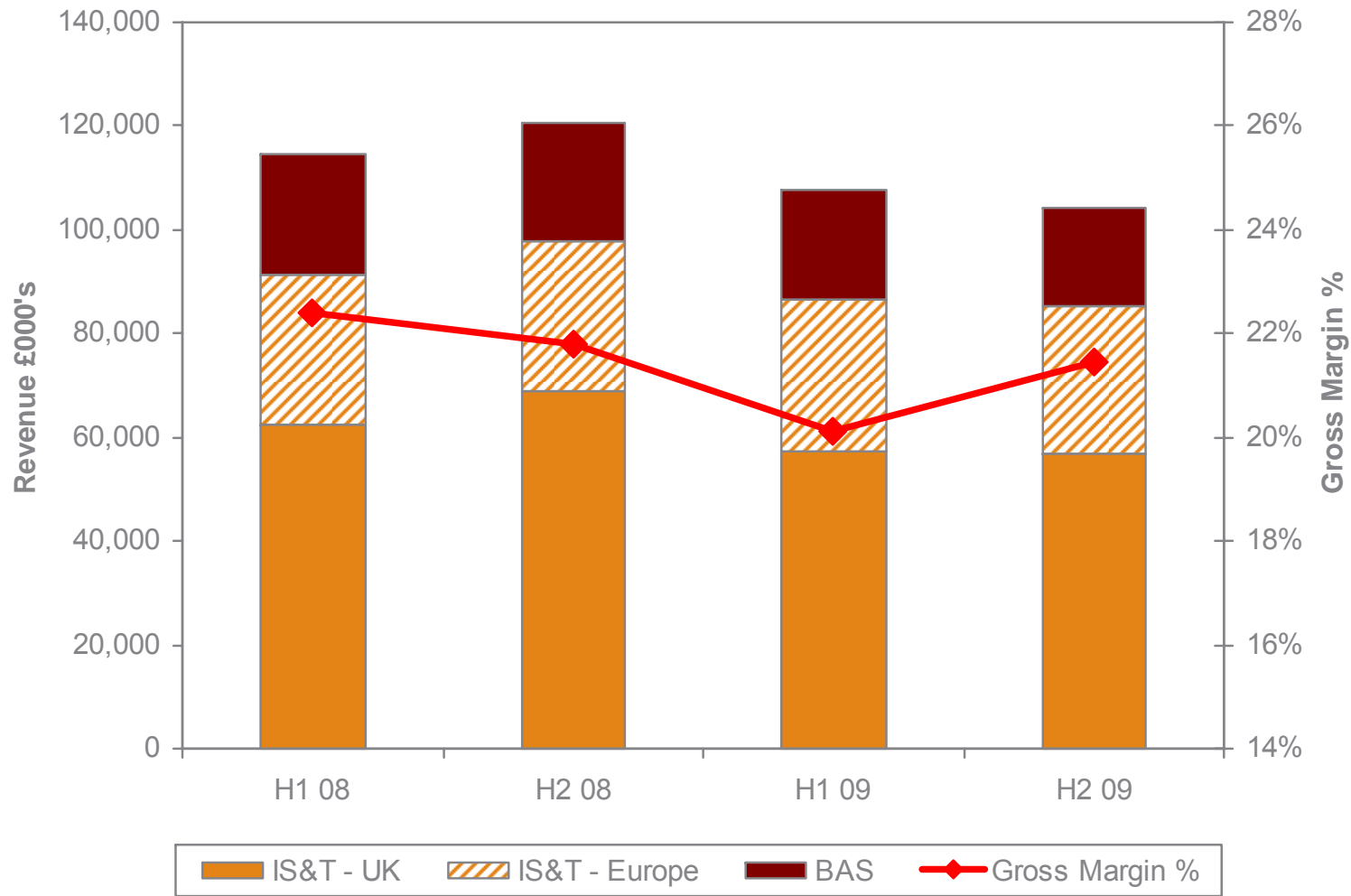
Consolidated Balance Sheet

	30-Jun-09		30-Jun-08
Non-current assets	£m		£m
Property, plant and equipment	1.0		2.2
Goodwill	28.6		43.5
Other intangibles	3.2		4.8
Deferred Tax assets	1.1		1.0
Other receivables	2.4		1.9
Total Fixed Assets	36.3		53.4
Inventory	2.6		1.4
Trade and other receivables	53.7		77.9
Cash	12.1		11.1
Assets held for sale	1.9		-
Liabilities held for sale	(1.8)		-
Other Current liabilities	(60.8)		(86.4)
Non-current liabilities	(3.8)		(3.2)
Net Assets	40.2		54.2
Share capital and other reserves	88.6		123.0
Profit and loss account	(48.7)		(69.1)
Minority Interests	0.3		0.3
Total Shareholders Funds	40.2		54.2

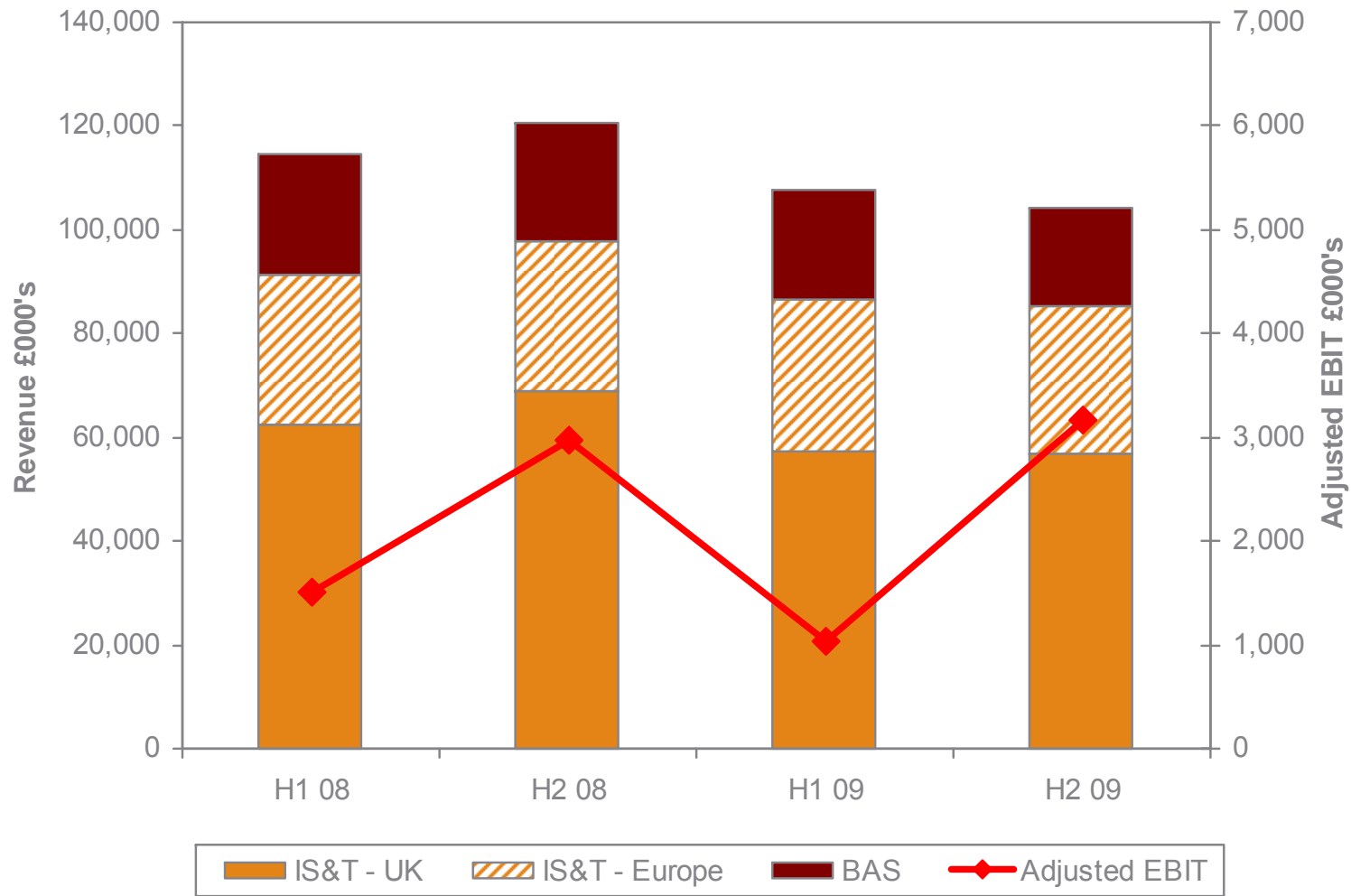
Cash Generated from Operations

	FY09 £m		FY08 £m
Loss for the period after tax	(12.1)		(4.7)
Adjustments for:			
Depreciation	1.2		1.1
Amortisation	1.5		2.0
Financial income	(0.2)		(0.6)
Financial expenses	0.8		1.0
(Profit)/Loss on sale of discontinued operations	(0.7)		-
Impairment of goodwill and intangibles	13.7		13.4
Loss on sale of property, plant and equipment	0.7		0.1
Share based payments	1.1		0.3
Taxation	(2.5)		2.0
Operating profit before changes in working capital	3.5		14.6
(Increase)/decrease in inventories	(1.1)		2.9
Decrease/(increase) in trade and other receivables	23.3		(1.1)
Decrease/(increase) in trade and other payables	(20.5)		(9.2)
Increase in provisions	1.6		0.1
Cash generated from operations	6.8		7.3
Cash generated from operations			
Attributable to continuing operations	6.8		3.6
Attributable to discontinued operations	-		3.7
	6.8		7.3

Revenue and Gross Margin



Revenue and Adjusted EBIT

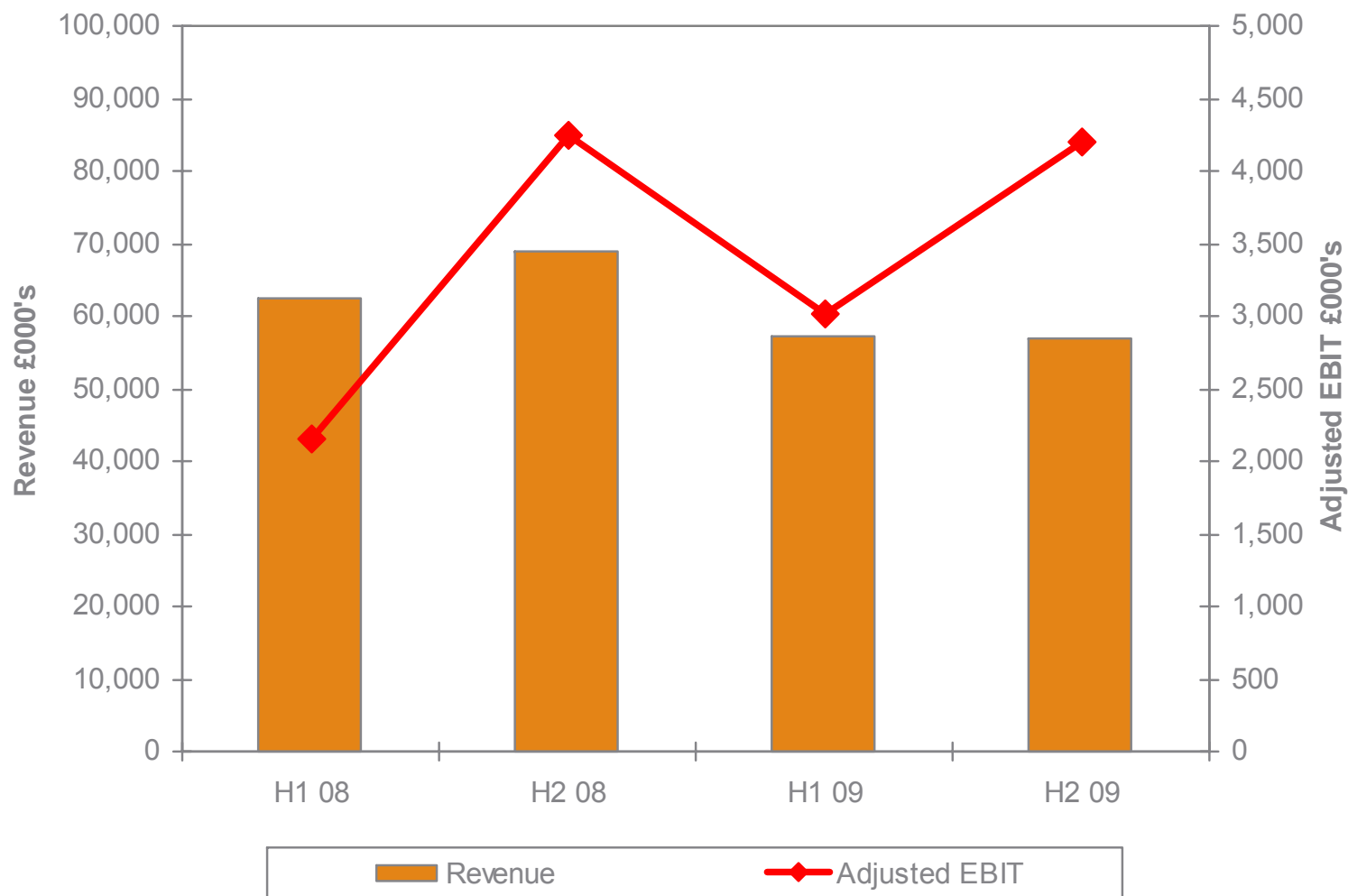


Revenue and Adjusted EBIT Quarterly from FY 2008 to FY 2009

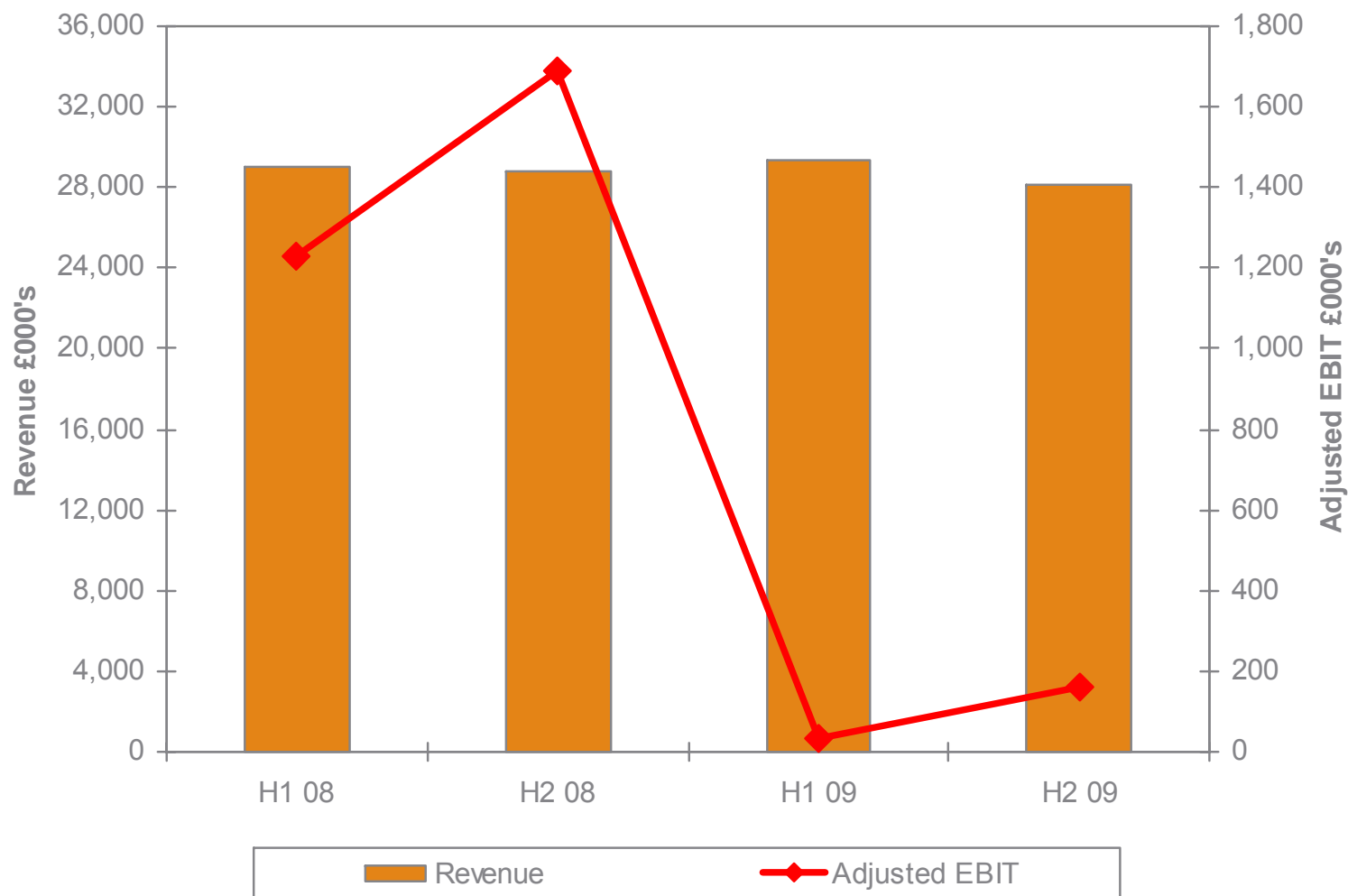


- Largest business unit of the Group with Revenue of £114.2 m (2008: £131.4 m) and Adjusted EBIT of £7.2 m (2008: £6.4 m)
- Business unit consists of three main lines of business:
 - Technology - helping our clients with the sourcing, management and support of their IT estates utilising a Technology 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 STaG BSF.
- Clear proposition definition for staff, partners, customers and prospects
- Results impacted by Lehmans debt write off £0.5 m and losses from Morse in Education of £1.0 m

Infrastructure Services & Technology – UK Revenue and Adjusted EBIT

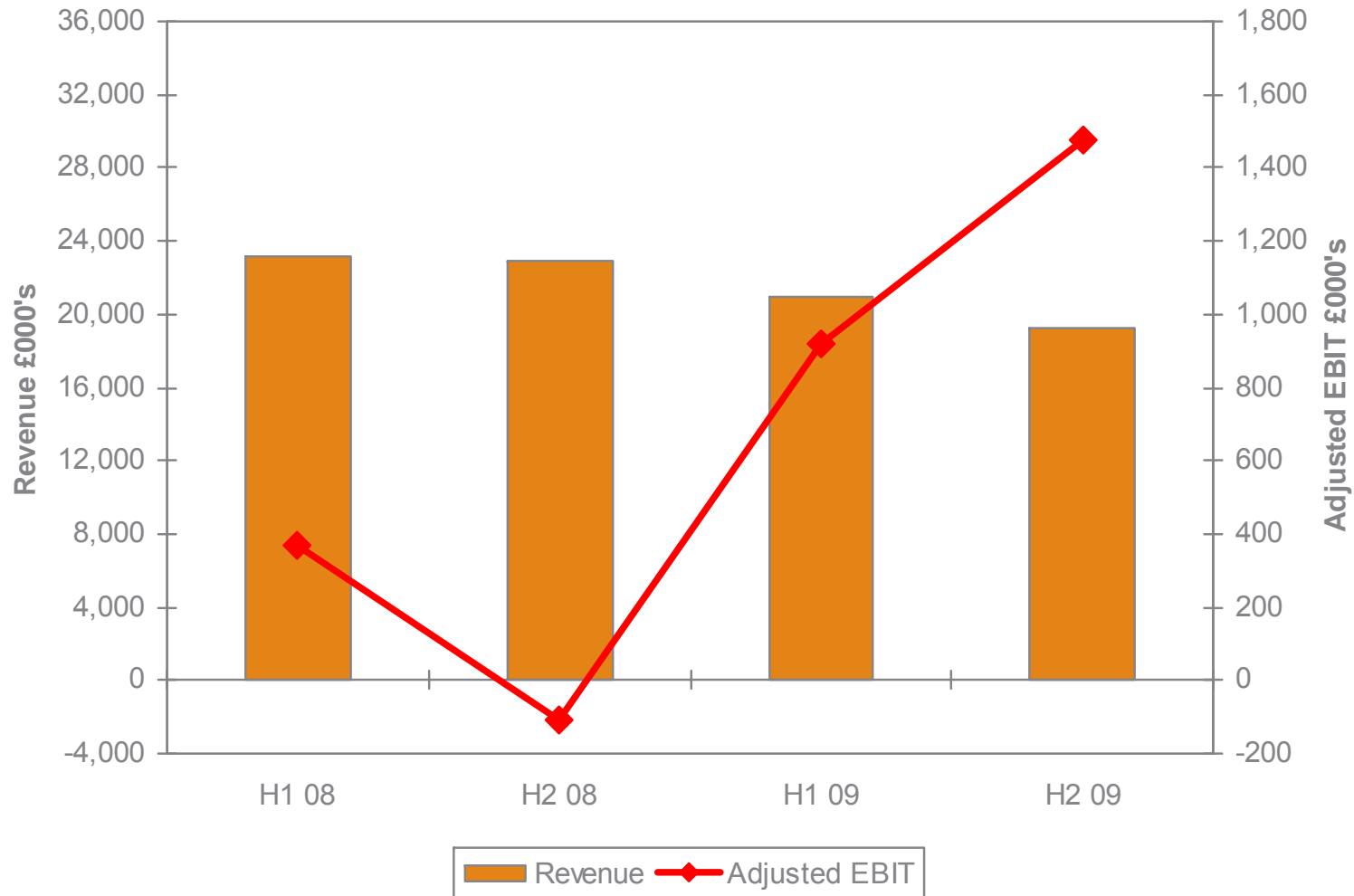


- Spain and Ireland - two of the worst performing economies in Europe
- Revenue of £57.4 m (2008: £57.8 m) and Adjusted EBIT of £0.2 m (2008: £2.9 m)
- Reported revenue benefit from strengthening Euro against Sterling
 - under constant currency revenue declined by 14.5%
- Reversed an Adjusted LBIT of £0.6 m for 9 months ended 31 March 2009
 - Spanish business has been restructured and has been profitable since the end of February.
- Management teams are committed to the businesses which are well positioned to take advantage of upturn in local economies



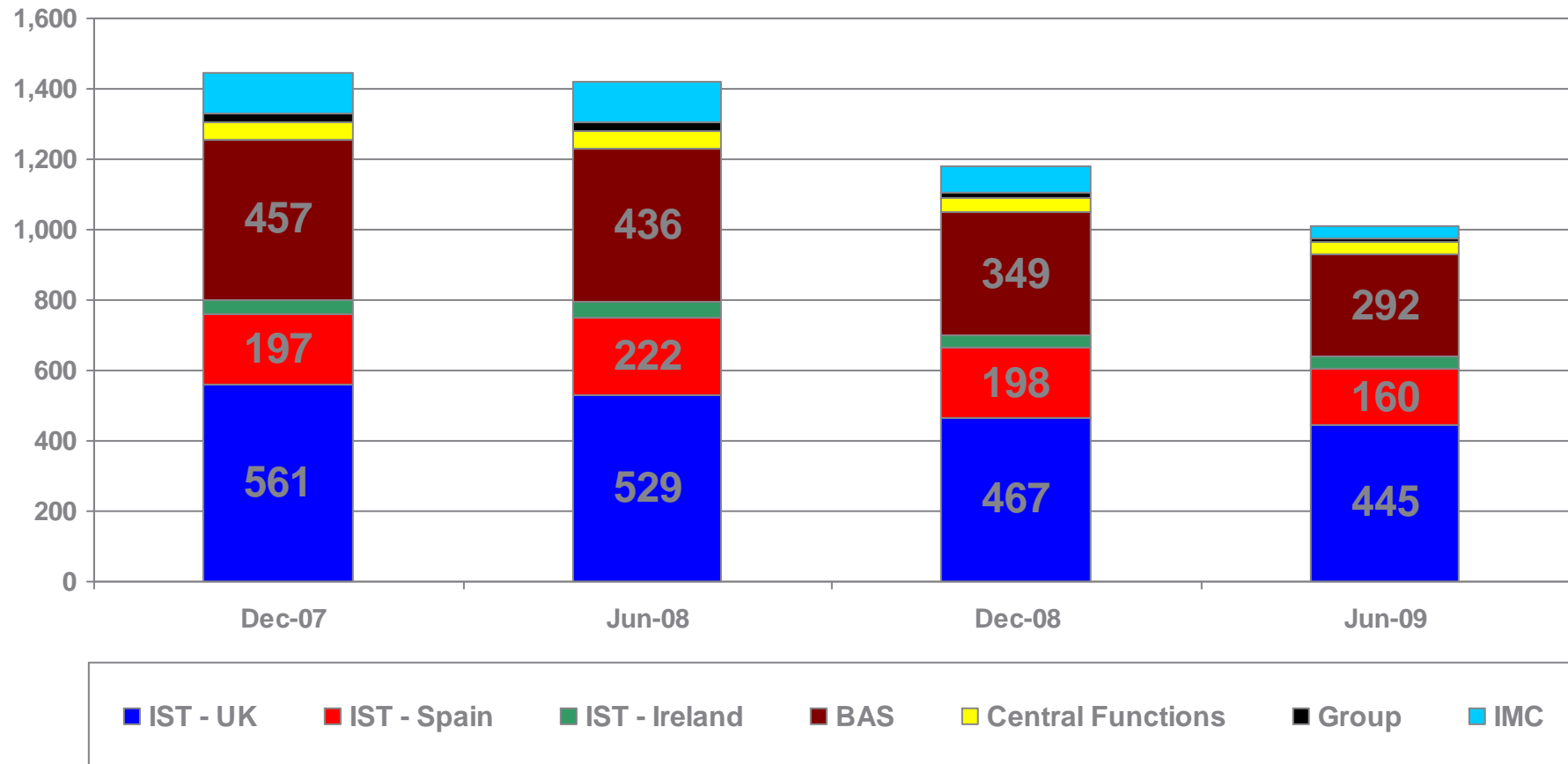
- Business Applications Services delivered Revenues of £40.3 m (2008: £46.1 m) and Adjusted EBIT of £2.4 m (2008: £0.3 m)
- Business unit is organised around three separate businesses
 - Diagonal – SAP implementation and support services;
 - Portals and Collaboration; and
 - Xayce – Business Change and Transformation Consultancy.
- Diagonal operates in three main territories: UK, USA and Asia Pacific whilst the other businesses are UK based
- A number of new key proposition areas have been identified
- Focus on business development and sales activities for:
 - Microsoft
 - SAP
 - business change & transformation capabilities
- Stronger governance processes and procedures for both sales and delivery management

Business Applications Services Revenue and Adjusted EBIT



Exceptional Items

	Cont £'000	Disc £'000	Total £'000
Dilapidations	700	8	708
Provision for loss on disposal of subsidiaries	0	254	254
Exceptional Credits			
Share Option credits	(615)	0	(615)
Consolidation credits	(565)	0	(565)
Exceptional credits	(1,180)	0	(1,180)
Restructuring costs	8,640	979	9,619
Impairment of Intangibles	0	13,721	13,721
Net exceptional items	8,160	14,962	23,122



Trading Balances Going Forward

- Total balance of £10.2 m > one year old at 30 June 2008, reduced to £4.4 m as at 30 June 2009

		30-Jun-08	P&L	Settled/ Crystallised	30-Jun-09
		£m	£m		£m
Ageing Profile of Trading balances	FY03 or earlier	3.6	(2.8)		0.8
	FY04	1.0	(0.1)		0.9
	FY05	1.8	(0.6)		1.2
	FY06	2.8	(0.6)	(1.1)	1.1
	FY07	1.0		(0.6)	0.4
		10.2	(4.1)	(1.7)	4.4

- Difficult to predict with certainty levels of release that will flow through income statement in years ahead
- Above ageing would provide estimate of maximum releases likely each year

Trading balances are reviewed on a regular basis and releases are made when a liability is no longer expected to crystallise.

Our longstanding policy in relation to long term trading balances is as follows:

Customer credit balances and upgrades	Release all balances greater than six years old if no trading activity has taken place with the client in the previous twelve months
Supplier credit balances	Confirmation from supplier of no further liabilities through supplier reconciliations
Goods/Services received invoices not received	Release all balances greater than three years old or if the service contract has ended

In FY09, £4.1m (FY08: £4.2m) trading balance credits were reflected through the profit and loss account in line with the above policy.

Short term trading balances are regularly reviewed, cleared down and where appropriate credit notes issued

Customer credit balances	Credit balances consist primarily of unallocated cash payments, credit notes issued and not claimed and deferred revenues
Upgrades	Customer credits relate to stock traded-in on upgrade transactions which have not yet been invoiced by the customer. Supplier credits relate to credits received in advance of upgrade stock not yet returned
Supplier credit balances	Morse have received credits from suppliers that cannot be readily associated with a specific project, or have achieved exceptionally high trade margins, which are held back in case the supplier raises objections which may result in renegotiation and repay
Goods/Services received invoices not received	Control account which matches goods/services received with supplier invoices. The credit balance builds up if the invoice is posted to stock or the invoice may not be received and hence the goods received note cannot be matched