

Mouchel Group plc

30 March 2010

Mouchel Group plc

Interim Results

For the six months ended 31 January 2010.

Mouchel Group plc, the consulting and business services group, announces unaudited results for the six months ended 31 January 2010.

Notwithstanding the continuing difficulties we have encountered in the Middle East, we are pleased with our progress during the first half of the year, against a backdrop of difficult trading conditions in some of our markets and of uncertainty pending the outcome of the general election. Our strategy is to focus on long-term managed service and outsourcing contracts, mainly with clients in the UK public sector and public service industries and we remain convinced that this is sound, given the opportunities that will flow from the anticipated cut backs in UK public spending.

Financial highlights

As anticipated, Group financial results in the first half have been impacted significantly by the downturn in the Middle East and, to a lesser extent, by reduced activity within Management Consulting and Rail:

	2010	2009
Revenue	£312.4m	£365.6m
Underlying operating profit ¹	£19.7m	£24.7m
Underlying operating margins ¹	6.3%	6.8%
Profit before tax and exceptional items ¹	£15.0m	£21.0m
Exceptional items	£(18.5)m	£(4.7)m
(Loss)/profit before tax	£(3.5)m	£16.3m
Adjusted earnings per share ²	9.9p	13.9p
Basic (loss)/earnings per share	(1.9)p	11.0p
Dividend per share ³	2.25p	2.25p

Notes:

1. Underlying operating margins, underlying operating profit and profit before tax and exceptional items are before amortisation of intangible assets arising from business combinations of £3.5m (31 January 2009: £4.0m) and other exceptional items (detailed in note 3) of £15m (31 January 2009: £0.7m).
2. Adjusted earnings per share is calculated after adding back shares held by the employee share trusts to the weighted average number of shares and adjusting earnings for exceptional items (net of taxation).
3. Proposed dividend in respect of the half year.

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- Exceptional items include restructuring and asset impairment charges of £15m in the Middle East;
- Net debt of £115.7m (£111.6m at 31 January 2009);
- Banking facilities reviewed and temporary easement of banking covenant secured;
- Cost reduction and cash generation initiatives underway, including working capital improvement plan aimed at securing £20m to £25m reduction in contract receivables;
- The order book stood at £2.0bn at the half year, compared with £1.9bn at 31 July 2009;
- Our bidding pipeline of near-term opportunities and contract extensions totalled £2.3bn at the half year, compared with £2.2bn at 31 July 2009.

Business highlights

- Good progress against the Group's short-term objectives, established last summer as a basis for recovery;
- Good trading progress in the period, with strong performance from Highways and the BPO activities within Government Services;
- Continuing challenges encountered in the Middle East where trading has been slower and even more difficult than anticipated at the start of the financial year;
- Contract win rate again at the top end of our target range (of between one-in-three to two-in-five tenders by value), maintaining excellent visibility of future earnings;
- Outlook remains good, despite a weak economic backdrop, with a strong and growing pipeline of bidding opportunities as a result of continuing pressure on public sector organisations to improve services and reduce costs;
- Focused strategy maintained, with a commitment to the UK public sector as the Group's core activity and client base; and
- Medium-term plans in place to develop and grow the Group, with the emphasis on the core businesses of Highways and Government Services, including Management Consulting.

As a result, the Group continues to regain momentum. This progress is in spite of the distraction that the Group has faced as a result of the approach by VT Group, which materialised on 18 November 2009.

Richard Cuthbert, Chief Executive, commented:

'We have performed well in a difficult economic environment, particularly in our core BPO and highways businesses. In the run up to AMP5, we have successfully tendered for new opportunities with the UK water companies. We have also made good progress in addressing the priorities we set ourselves last summer to restore the Group's momentum. However, trading in the Middle East has again been difficult – we have therefore taken action to reduce our risk and negotiations are now at an advanced stage to dispose of our business in the region. In our core UK businesses, we are not short of opportunities and with the increased certainty that will follow the general election, we remain increasingly optimistic about the Group's longer-term prospects.'

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A presentation will be given to analysts at 9.15 am today, Tuesday 30 March 2010, at the offices of RBS Hoare Govett, 250 Bishopsgate, London EC2M 4AA. For further information please contact:

Mouchel Group plc

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BUSINESS REVIEW

Introduction

Mouchel is a consulting and business services group that improves day-to-day life for millions of people by providing the design, management and operational skills needed to transform essential public services and sustain vital infrastructure.

We work mainly with the UK public sector and have particularly strong relationships with local authorities as a result of the many long-term, large scale contracts that we have secured over the last ten years or so. Most of our clients are facing the challenge of providing 'more for less' as a result of prospective further cuts in public expenditure. In addition to the need to maintain vital infrastructure and essential services, there is a growing drive for efficiencies, cost savings and the transformation of services. Notwithstanding the experience of 2008/09, when there was relatively limited opportunity to secure new bundled service contract wins, we are increasingly confident that the outsourcing and service re-engineering required to deliver improvements provide significant prospects for Mouchel, especially in view of our development over recent years following the acquisition and successful integration of HBS, the local authority BPO specialist, and the Hedra management consulting practice.

We hold market leading positions in the highways, local authority BPO and public sector consulting markets in the UK and expect to see continuing strong demand for our services in these sectors. Our strategy is therefore to concentrate increasingly on these core businesses and markets, targeting the many 'long and large' contracts that are on offer, as clients look to private sector partnership and outsourcing as the solution to improved efficiency and service quality.

Apart from the Middle East, Mouchel has made good progress in the first half of the year and we continue to enjoy an exceptionally strong order book and bidding pipeline. During the period, we have secured important contract wins in our core Highways and Government Services businesses, which in the latter case have included some strategically important Management Consulting appointments.

In the Middle East, our activities have been focused in Abu Dhabi, with some projects in Kuwait and Saudi Arabia. Towards the end of 2009, we withdrew from Dubai, following the collapse of the property market and consequent rapid decline in opportunities. Although Mouchel has had a presence in the region for more than 30 years, the short term prospects remain challenging. This has again led to a significant impairment of receivables in the period and the decision to exit the region as a whole.

Our underlying trading performance has been in line with the Board's expectations for the year to 31 July 2010. As previously indicated, the usual seasonality of the business towards the second half, which we experienced prior to 2008/09, will be accentuated by the increased investment in bidding and successfully securing new contracts in the first half. More significantly, the improved visibility and momentum gained

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from our recent contract wins and the underlying strength of our order book and bidding pipeline, mean that we can look forward to 2010/11, and beyond, with increasing confidence.

Trading results

Revenue for the period was £312.4m, compared with £365.6m for the first six months of last year, mainly reflecting the challenges in the Middle East, Management Consulting and Rail businesses, which we have now addressed.

Profit before tax and exceptional items for the period fell 28.4% to £15m. Underlying operating margins decreased slightly from 6.8% to 6.3%. This performance was broadly in line with our expectations, notwithstanding the challenges we have had to address which additionally have included the distraction of the bid approach from VT Group, the particularly adverse weather conditions towards the end of the period and the uncertainty surrounding the impact of the forthcoming general election. We expect the impact of the latter to be more significant in the second half, as activity levels slow ahead of an anticipated recovery next year following the election.

In Government Services, revenue decreased from £148.6m to £141.8m, reflecting the reduction in activity levels in Management Consulting, offset by generally stronger performance from our BPO commissions with local authorities. The reduction in underlying operating profit and margins from £8.8m and 5.9% to £7.5m and 5.3% respectively, also reflected this, as well as the significant input into bidding the wide range of new bundled services commissions. We expect this to be an ongoing trend over the next six months as we address the continuing strong pipeline of opportunities.

Highways performed very strongly, notwithstanding the significant effort put into securing new contracts during the period. Revenue increased from £118.5m to £123.6m and underlying operating profit from £9.1m to £9.7m, resulting in an increase in underlying operating margins from 7.6% to 7.8%. This mainly reflected strong performance from our maintenance management commissions and technology business. We have little exposure to capital programmes, save for the A5 highway improvement contract in Northern Ireland and the Highway's Agency's Managed Motorways programme in England, and barring a complete halt to these projects, we expect that any reduction in activity levels following the general election will be offset by the new work which we have secured.

In Regulated Industries, revenue decreased from £98.5m to £47.0m as a result of the significant downturn in the Middle East and our substantial withdrawal from Rail. This also accounted for the reduction in underlying operating profit from £6.9m to £2.5m and the decrease in underlying operating margins from 7.0% to 5.3%. In Utilities, we have been successful in securing a number of new commissions ahead of the start of AMP5 in April this year. In common with previous regulatory periods, we anticipate a relatively slow start to AMP5 and are currently experiencing low levels of demand. We expect activity levels to pick up slightly towards the end of this financial year.

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Our withdrawal from Dubai and subsequent focus on Abu Dhabi, simultaneous with our move to focus on Government clients, rather than Government backed developers, has not yielded the anticipated improvement in performance – opportunities have been fewer and slower to materialise than expected, with consequent impact on performance. We have therefore taken steps to exit the region and, having identified a preferred bidder for our Middle East business, negotiations around disposal are now at an advanced stage.

The loss before tax after exceptional items was £3.5m (compared with a profit of £16.3m for the first half last year). Exceptional costs for the period included amortisation of intangible assets arising from business combinations of £3.5m (31 January 2009: £4.0m). Other exceptional items totalled £15m and comprised further restructuring costs and impairment of contract receivables in the Middle East of £5m and £10m respectively.

Progress against the five short-term objectives

Notwithstanding the distraction of the approach by VT Group, during the first half, we have been particularly focused on addressing the five key objectives that we set ourselves last summer. We have made good progress in most of these, demonstrating that the recovery of the Group is on track and that this phase is now complete.

(i) Securing major contract wins in Highways

The first half of the year has been another successful period for the Group in tendering and securing new work in highways, with several significant contract wins.

In February, just after the end of this reporting period, Mouchel received confirmation from the Highways Agency that we had been successful in both bids that we submitted for the current tranche of Managing Agent Contractor (MAC) contracts. The EnterpriseMouchel joint venture, in which Mouchel has a 50% share, will deliver the Area 13 and Area 1 contracts, both of which commence at the beginning of July this year and will continue for a five-year term (extendable to seven).

Area 13 comprises 414km of trunk roads and motorways in Cumbria and North Lancashire. The contract involves the provision of management, maintenance and operational services across a network which includes some of the highest sections of motorway in England. It is currently being delivered by the AmeyMouchel joint venture, but this new win allows Mouchel to increase its share of earnings from 25% (AmeyMouchel) to 50% (EnterpriseMouchel).

Area 1 comprises 320km of trunk roads in Cornwall and parts of Devon (essentially the A30 and A38 roads). Services provided are similar to those in Area 13 but here the win secures, for a further five years, the existing EnterpriseMouchel contract in Area 1, which was due to end in June 2010.

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The award of the two Highways Agency MAC contracts is particularly significant and confirms our position as the leading player in the UK highways sector. Other wins in the period include:

- Award of the five-year (extendable to 10) highways and transportation professional services contract for Lincolnshire County Council, which commences in April 2010;
- Appointment for a 10-year period as specialist advisor to the Highways Agency on the National Roads Telecommunications Service (NRTS), where work started in October 2009;
- Appointment as preferred bidder in Westminster, which is the largest on-street parking enforcement and street-based city management service contract in Europe. The commission is for a four-year period (extendable to six) and covers on-street parking management, CCTV operation and the provision of innovative technology services. Subsequently, as a result of the emergence of a minor technical flaw in the procurement process for this contract, the Council was obliged to terminate and recommence the procurement. We are now taking part in an accelerated process which will lead to contract award in the early summer. We remain optimistic of a successful outcome to this process, albeit with a later start than we had anticipated.

Following contract awards in Hillingdon, Newham and Wandsworth, and the recent strengthening of our parking services management team, we are now targeting additional parking and traffic management opportunities in London and elsewhere in the UK, as well as a major national outsourcing opportunity for the DVLA. In addition, the new London Road User Charging contract, where we provide enforcement operations software as part of the IBM delivery team for Transport for London, successfully went live in November 2009.

We are shortlisted (as one of three) in joint venture with Carillion, for the £2bn 25-year highways maintenance PFI contract in Sheffield and will be submitting initial proposals in April which will be used as the basis for down-selecting the final two bidders. Announcement of the preferred bidder is scheduled for March next year, with the contract due to commence in August 2011.

In Western Australia, we are shortlisted for four potential maintenance management commissions in joint venture with Downer EDI, the principal highways services contractor in Australasia. This procurement programme represents an important step in our international expansion in the highways sector, where we are seeking to transfer our UK expertise and experience to carefully targeted countries and to benefit authorities wishing to replicate or develop UK practice.

(ii) Securing major contract wins in Government Services

We have also continued to make good progress in either securing or positioning ourselves for additional opportunities in Government Services, where we have established the Group as the leading provider of 'bundled' BPO services to local authorities in England.

In Middlesbrough, the existing partnership between Middlesbrough Council and Mouchel is now set to continue to 2016, following the Council Executive's decision to agree in principle to a five-year extension to the existing contract, which otherwise would have ended in 2011. The work involves front-line customer services and administration services, council tax and housing benefits administration, finance service, payroll and pensions administration, plus HR and IT services. The extension has been secured following extensive negotiations and represents a step change to the existing contract terms.

In Oldham, where we have been targeting additional services, it was agreed in January that the new services would be transferred to us in April this year. These include finance and HR plus an expansion of our existing highways and contact centre activities. The additional services will be provided for the remaining life of the existing contract, which runs until 2018, with a potential three-year extension to 2021. There has however been a further delay to this process, such that the transfer is now unlikely to take place until our next financial year.

In the last few days we have learned that our tender as one of two bidding for the 10-year bundled services contract for North East Lincolnshire Council has been unsuccessful. During the period, we were however successful in securing a four-year commission with the Council to support its economic wellbeing programme.

The bidding pipeline in Government Services is particularly strong and at the half year we were shortlisted (among two or three remaining bidders) for six large-scale partnership opportunities, including North East Lincolnshire. Since then, we have voluntarily withdrawn from one further opportunity, due to concerns around the client's affordability criteria. Also, in Buckinghamshire, the client has halted the procurement process due to the withdrawal of some of the other participating authorities. We expect procurement to recommence later in the year. As a result, we are currently still bidding for three significant BPO or bundled service opportunities, including Bournemouth, where we are down to the last two, and North Somerset where we are down to the last three.

We are continuing to see evidence of local authorities looking to outsource services to the private sector as they come under increasing pressure to deliver services more efficiently and reduce costs. This is evidenced by more than a dozen other substantial outsourcing contracts in the early stages of procurement. Mouchel has more long term, large scale local authority bundled service partnership contracts than any other company. We expect to be short-listed for every tender that we target and to win contracts at a rate that will put us at the top end of our target range.

(iii) Improving performance in Management Consulting

Mouchel's Management Consulting business adds significant intellectual capital to the Group through its specialist skills in the delivery of public sector business transformation and improvement programmes. These services are provided both to external clients in the central government, education and health sectors and to partnerships in local government and utility companies where Mouchel already has business interests.

Performance in Management Consulting continues to improve as we benefit from the changes made during the last financial year and in the early months of the current year. The new management team is now well established and delivering stronger trading results. We have also undertaken a number of measures to improve the operational gearing in the business and to give us more flexibility in resourcing work and responding to fluctuations in demand.

Demand for our services in this part of the business is already being affected by the hiatus associated with the impending general election. However, we have made some allowance for this in our budget and we have good income visibility, particularly given our existing longer-term commissions and recent contract wins.

We continue to work with the NHS on the National Programme for IT as part of the CSC Alliance. This is a 10-year role to provide change management and transformation support and, as a result, we are bidding to provide similar services to CSC across a number of its other strategic accounts, including the Royal Mail.

We have also recently been appointed for a five-year commission to establish the Centre for Workforce Intelligence to support the Department of Health in planning future health and social care workforce requirements. This involves the TUPE transfer of staff from the NHS and, given its size and duration, will significantly improve the visibility of revenues and help underpin performance in the second half. This contract commenced in March.

Our ability to compete head-to-head with the major consulting houses is also evident from our recent success in the Office of Government Commerce Buying Solutions tender (previously known as the 'Catalist' framework). This is the main channel for Government procurement of consulting and ICT services. Mouchel was successful in being awarded 12 out of 23 lots tendered across the various frameworks – the second highest number awarded to an individual provider. We expect activity under these frameworks to commence after the general election.

Overseas, we have been awarded two major opportunities in Abu Dhabi. One is a major business process re-engineering assignment for the Department of Municipal Affairs (DMA) to improve the efficiency and effectiveness of government, where we are now about to start mobilising the contract, following an initial delay. The other is a commission for the DMA's Land Registry department where we have already started

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work to improve the land registration process through operational strengthening and the better use of technology.

Taken together, the measures we have put in place to strengthen the business and the work we have recently won, mean that we are confident of meeting our targets this year and of returning the business to deliver double-digit net margins when market conditions improve.

(iv) Collection of contract receivables in Dubai

At 31 July 2009, sums due in the Middle East totalled £38.6m of which £27.8m related to contracts in Dubai, with the vast majority being due from the local state-backed development companies. Given the economic slowdown in Dubai we took an impairment charge of £15.0m against fees earned which we had not received. This left an unimpaired balance of £12.8m at 31 July 2009, against which we have subsequently received about a quarter of the outstanding sum.

It has been confirmed recently by Dubai World that steps are being put in place to settle sums due to trade creditors in Dubai. However, there is a further risk that the amounts owed may be subject to additional discounting, payable over an even longer period than previously envisaged and settled other than in cash.

Also, having taken steps to close our operations in Dubai and refocus our Middle East business on Abu Dhabi, we have continued to review our options for the region as a whole. As a result, we are at an advanced stage of negotiations to sell our remaining activities in the Middle East.

In view of these developments, we have decided to make a further impairment charge of £10m against contract receivables to reflect the latest position around the sums due in Dubai and the realisable value of contract receivables elsewhere in the region. This amount, together with the £5m restructuring costs associated with the closure of the Dubai operations have been separately disclosed as exceptional items in the half year accounts. We believe that this represents a prudent assessment of the eventual outcome.

(v) Manage overall borrowing levels

Banking facilities will total £180m, after the £10m reduction at the end of March this year, and remain in place until 2012, save for two further reductions of £10m in March 2011 and 2012. Net bank debt at the half year was in line with the Board's expectations at £115.7m, comprising £153.7m drawn debt less cash balances of £38.0m, including cash held in joint ventures and our captive insurance company. Additionally, amounts utilised in respect of contingent liability bonds and guarantees were £23.0m.

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Although we expected to remain compliant with our banking covenants, the headroom for the fixed charge cover covenant was below the level we would have liked. As a result, we agreed with our banks in January 2010, a minor amendment to our banking agreement. This put in place a 'carve out' in the existing agreement for banking fees and potential bid defence costs and a temporary easement in the fixed charge cover covenant from 2.0x to 1.875x for the next 12 months. Headroom under our other covenant, net debt/EBITDA is not a concern and has remained unchanged at 3.0x.

We felt it was prudent to take this precautionary measure in order to remove any remaining uncertainty attached to this particular covenant and our banking arrangements generally. In the event, the half year results show that we would have complied with the fixed charge cover covenant without the easement, and we are confident that this will continue to be the case.

In addition to the easement agreed in the fixed charge cover covenant, we have put in place a number of other measures to improve the Group's borrowing position. These include the agreement with our existing banks of a £15m increase in the amount allowed for bonding purposes with other lenders, which effectively increases the overall facilities available to the Group by £15m.

We have also put in place a detailed working capital improvement plan aimed at securing a further £20m to £25m reduction in contract receivables by the year end, which will also contribute to increasing the headroom in our facilities. This is in addition to any upside from collecting outstanding receivables in the Middle East.

Capital expenditure will be significantly less going forward, now that we have substantially commissioned the new SAP system – a programme that has been extremely successful and which provides the Group with more robust infrastructure and an improved operating platform. The availability of better quality, comprehensive data across the Group and improved reporting, all as a result of the implementation of the SAP system, has allowed us to commence further Group-wide cost saving initiatives and to review our procurement arrangements. These will enable us to secure further savings in future, as will our recently launched internal back-office transformation programme.

The above measures, together with any proceeds from potential asset disposals, will significantly increase the available headroom within our existing banking facilities even after the £10m reductions in March this year and in March 2011 and 2012, prior to expiry of the facilities in August and October 2012.

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Statement of directors' responsibilities

The Directors confirm that this condensed interim consolidated financial information has been prepared in accordance with IAS 34, as adopted by the European Union, and that this half yearly management report includes a fair review of the information required by the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of 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.

Managing risks and uncertainties

Managing risk is undertaken at a series of levels within the business and in accordance with well-defined risk management procedures.

The Group Management Board (GMB) is responsible for assessing strategic risk to the business, for maintaining a register of principal risks and uncertainties, and for developing suitable and effective mitigation measures to control these.

The key financial and non-financial risks faced by the Group are disclosed in the Group's Annual Report and Accounts for the year ended 31 July 2009 within the Business Review (page 28) and in note 23 of the Consolidated Financial Statements available at www.mouchel.com. The Board considers that these remain a current reflection of the risks and uncertainties facing the business. In summary, they relate to the market and economic environment, our competitive position, safety and security, public health, workforce, reputation, systems capacity, financial and joint ventures.

People

Mouchel is one of the UK's largest employers in its core sectors with staff numbers totalling 10,800 at the half year. Outside of the UAE, where headcount has fallen significantly, there was a net reduction in staff numbers in the first half of 2009/10 of just over 200.

FINANCIAL REVIEW

Order book and pipeline

The order book stood at £2.0bn at the half year, compared with £1.9bn at 31 July 2009. Our contract win rate is strong and, for the year to date, has been at the top end of our target range of between one-in-three and two-in-five of opportunities tendered by value, maintaining the recovery we saw in the second half of 2008/09 and earlier in the year.

The bidding pipeline of near-term opportunities and contract extensions totalled £2.3bn at the half year, compared with £2.2bn at 31 July 2009. This reflects the increasing number of opportunities in Government Services, given the growing trend for local authorities to look towards working in partnership with the private sector to deliver services more efficiently.

Cash flow and working capital

At 31 January 2010, net bank borrowings totalled £115.7m versus £101.3m at 31 July 2009 and £111.6m at the previous half year. The net cash inflow from operations before exceptional costs was £9.8m for the period versus a cash outflow of £4.2m for the corresponding six months last year.

Banking facilities

The Group's credit facilities, following the £10m reduction at the end of March 2010, will total £180m. Of this, £115m is in the form of revolving credit facilities, which reduce by £10m in both March 2011 and March 2012, with the remaining balances of £30m expiring on 1 August 2012, and £65m expiring on 31 October 2012. The balance of £65m is in the form of a term loan which also falls due for repayment on 31 October 2012.

Taxation

The tax charge for the six months ended 31 January 2010 reflected the estimated tax rate for the full year of 25.8% (31 January 2009: 25.8%). The estimated rate for the full year reflects the benefit of additional reliefs, partly offset by the normal level of disallowable expenditure.

Pensions

The Group currently operates three main defined benefit pension schemes: the Mouchel Superannuation Fund (MSF), the Mouchel Staff Pension Scheme (MSPS) and the Mouchel Business Services Group Pension Scheme. The Group also has admitted body status in the Teesside pre-funded defined benefit scheme.

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The Group accounts for all four schemes under IAS 19 Employee Benefits. The IAS 19 charge for the six months was £3.4m, compared with £3.5m for the corresponding period last year. The charge continues to benefit from the changes to the MSF and MSPS schemes, whereby most members in the non-public sector sections of the two schemes moved from a final salary arrangement to a career average revalued earnings (CARE) basis for the calculation of their pension benefits. Under this basis, the link to final salary has effectively been removed for both past and future service.

At 31 January 2010, the total deficit under IAS 19 was £65.8m, compared with £67.2m at 31 January 2009 and £60.3m at 31 July 2009. The movements in the deficit reflect actuarial experience over the period. Since 31 January 2009, asset values have increased, but this has been offset by an increase in liabilities due to a reduction in discount rates.

The last actuarial valuations of all the schemes were undertaken at 31 March 2007 following which funding targets and related recovery plans were agreed with the relevant trustees. The next valuations will take place at 31 March 2010. Given the continuing and significant impact of these schemes on the Group's finances, we continue to monitor industry-wide developments in the provision of benefits and will look to keep pace with these in order to reflect current best practice.

Earnings per share

Adjusted earnings per share decreased 28.8% from 13.9p to 9.9p. Adjusted earnings per share are calculated after adding back shares held by the employee share trusts to the weighted average number of shares. Earnings are adjusted to exclude amortisation of intangible assets arising from business combinations and other exceptional items (net of taxation). The basic loss per share was 1.9p (31 January 2009: earnings of 11.0p).

Dividends

It is proposed that an interim dividend of 2.25p (2009: 2.25p) per ordinary share will be paid on 4 June 2010 to shareholders on the register as at 30 April 2010. This has been maintained at the same level as last year, notwithstanding the reduction in earnings relative to the first half in 2008/09.

Consistent with previous practice, it is envisaged that the interim dividend will continue to represent approximately one third of the expected total annual dividend, reflecting the Board's medium-term outlook for the Group.

OUTLOOK

Notwithstanding the continuing difficulties we have encountered in the Middle East, we are pleased with our progress during the first half of the year. Our strategy is still to secure long-term managed service and outsourcing contracts, mainly with clients in the UK public sector and public service industries and we remain convinced that this is sound, in spite of current fears in some quarters resulting from the anticipated cut backs in UK public spending.

We have made good headway in addressing the challenges we have faced over the last year and now, with our difficulties in the Middle East almost behind us, we are turning our attention to the next phase of further development and expansion of the Group. We have a diverse business, which also benefits from the excellent visibility that a strong order book and bidding pipeline provides. Our contract win rate is strong, and for the year to date has again been at the top end of our target range of between one-in-three and two-in-five of opportunities tendered by value, maintaining the recovery we saw in the second half of 2008/09 and earlier this year. We have taken decisive steps to improve the trading performance in our Management Consulting business and address the difficulties in the Middle East.

We expect our core and market leading businesses in Government Services and Highways to show continued growth next year, contributing to overall growth for the Group as a whole, and our plans for focusing the Group on these two business streams, including Management Consulting, are well advanced. Our track record and our extensive and long-standing relationships across local authorities puts us in a leading position to capitalise on the inevitable drive to achieve 'more for less' over the next few years. We also now have a platform in place to operate and manage an even larger business as a result of the successful implementation of a Group-wide SAP system and this is also providing us with opportunities for improved efficiency.

As a result, whilst the next few months are likely to remain challenging in the period running up to and immediately following the general election, the outlook for the Group remains promising. We continue to trade in line with our expectations for the year end and we are increasingly confident about our long-term prospects.

On behalf of the Board

Richard Cuthbert
Chief Executive

Kevin Young
Group Finance Director

30 March 2010

Consolidated income statement (unaudited)

For the six months ended 31 January 2010

	Notes	Results before exceptional items 6 Months to 31/01/2010 £000	Exceptional items ¹ 6 Months to 31/01/2010 £000	Total 6 Months to 31/01/2010 £000	Results before exceptional items 6 Months to 31/01/2009 ² £000	Exceptional items ¹ 6 Months to 31/01/2009 ² £000	Total 6 Months to 31/01/2009 ² £000
Continuing operations:							
Revenue	2	312,446	-	312,446	365,639	-	365,639
Cost of sales		(254,434)	-	(254,434)	(298,753)	-	(298,753)
Gross profit		58,012	-	58,012	66,886	-	66,886
Administrative expenses		(38,360)	(18,492)	(56,852)	(42,182)	(4,686)	(46,868)
Operating profit	2	19,652	(18,492)	1,160	24,704	(4,686)	20,018
Interest receivable		565	-	565	1,203	-	1,203
Finance costs		(5,185)	-	(5,185)	(4,911)	-	(4,911)
(Loss)/profit before tax		15,032	(18,492)	(3,460)	20,996	(4,686)	16,310
Taxation	4	(3,881)	5,178	1,297	(5,417)	1,312	(4,105)
(Loss)/profit for the period		11,151	(13,314)	(2,163)	15,579	(3,374)	12,205
Basic (loss)/earnings per share	6			(1.9)p			11.0p
Diluted (loss)/earnings per share	6			(1.9)p			10.9p

Consolidated statement of comprehensive income (unaudited)

For the six months ended 31 January 2010

	Notes	6 Months to 31/01/2010 £000	6 Months to 31/01/2009 ² £000
(Loss)/profit for the period		(2,163)	12,205
Currency translation differences		928	4,539
Tax relief on shares issued to employees		-	113
Changes in fair value of cash flow hedges		(2,439)	(5,766)
Deferred tax on movement in pension scheme valuations	11	2,693	10,317
Actuarial loss on pension scheme valuations	11	(9,618)	(36,846)
Other comprehensive loss for the year, net of tax		(8,436)	(27,643)
Total comprehensive loss		(10,599)	(15,438)

¹ See note 3.

² The figures given for the six months ended 31 January 2009 are extracted from the unaudited 2009 Interim Report for the Group.

Consolidated income statement (audited)

For the year ended 31 July 2009

	Notes	Results before exceptional items 12 Months to 31/07/2009 ² £000	Exceptional items ¹ 12 Months to 31/07/2009 ² £000	Total 12 Months to 31/07/2009 ² £000
Continuing operations:				
Revenue	2	740,550	-	740,550
Cost of sales		(616,370)	-	(616,370)
Gross profit		124,180	-	124,180
Administrative expenses		(76,855)	(53,562)	(130,417)
Operating profit/(loss)	2	47,325	(53,562)	(6,237)
Interest receivable		1,565	-	1,565
Finance costs		(8,834)	-	(8,834)
(Loss)/profit before tax		40,056	(53,562)	(13,506)
Taxation		(10,401)	10,916	515
(Loss)/profit for the year		29,655	(42,646)	(12,991)
Basic loss per share	6			(11.7)p
Diluted loss per share	6			(11.7)p

Consolidated statement of comprehensive income (audited)

For the year ended 31 July 2009

	12 Months to 31/07/2009 ² £000
Loss for the year	(12,991)
Currency translation differences	(1,350)
Loss on sale of own shares held in employee share trusts	(78)
Tax relief on shares issued to employees	-
Changes in fair value of cash flow hedges	(4,699)
Deferred tax on movement in pension scheme valuations	7,203
Actuarial loss on pension scheme valuations	(34,036)
Other comprehensive loss for the year, net of tax	(32,960)
Total comprehensive loss	(45,951)

¹ See note 3.

² The figures given for the year ended 31 July 2009 are extracted from the audited 2009 Annual Report for the Group.

Consolidated balance sheet (unaudited)

As at 31 January 2010

	Notes	31/01/2010 £000	31/01/2009 ¹ £000	31/07/2009 ¹ £000
ASSETS				
Non-current assets				
Goodwill		109,717	118,969	109,717
Other intangible assets		64,458	69,959	60,538
Property, plant and equipment		18,380	22,164	24,769
Deferred tax assets		32,921	30,680	28,739
		225,476	241,772	223,763
Current Assets				
Trade and other receivables		171,188	207,176	183,033
Assets held for sale	7	-	3,984	-
Cash and cash equivalents	10	38,023	32,534	52,426
		209,211	243,694	235,459
Current liabilities				
Bank overdrafts	10	-	(364)	-
Borrowings	8	(1,116)	(59,682)	(2,153)
Trade and other payables		(115,056)	(123,010)	(128,509)
Current tax liabilities		(13,322)	(16,426)	(8,909)
Retirement benefit obligations	11	(759)	(1,138)	(857)
		(130,253)	(200,620)	(140,428)
Net current assets		78,958	43,074	95,031
Non-current liabilities				
Borrowings	8	(150,557)	(85,847)	(150,764)
Trade and other payables		(1,577)	(2,015)	(1,404)
Financial Instruments	8	(6,801)	(5,429)	(4,362)
Provision for liabilities and charges	15	(16,045)	(11,115)	(23,298)
Deferred tax liabilities		(11,336)	(13,993)	(12,325)
Retirement benefit obligations	11	(65,071)	(66,023)	(59,430)
		(251,387)	(184,422)	(251,583)
Net assets		53,047	100,424	67,211
EQUITY				
Share capital		280	280	280
Share premium		27,853	27,814	27,853
Other reserves		11,729	21,170	13,214
Retained earnings		13,185	51,160	25,864
Total equity		53,047	100,424	67,211

The notes on pages 21 to 31 are an integral part of the condensed interim consolidated financial information.

¹ The figures given for the six months ended 31 January 2009 are extracted from the unaudited 2009 Interim Report for the Group and the figures given for the year ended 31 July 2009 are extracted from the audited 2009 Annual Report for the Group.

Consolidated cash flow statement (unaudited)

For the six months ended 31 January 2010

	Notes	6 Months to 31/01/2010 £000	6 Months to 31/01/2009 ¹ £000	12 Months to 31/07/2009 ¹ £000
Cash flows from operating activities				
Cash generated from operations before exceptional costs	9	9,778	(4,207)	32,801
Exceptional costs		(6,969)	(671)	(7,585)
Cash generated from operations	9	2,809	(4,878)	25,216
Interest element of finance lease payments		(15)	(26)	(46)
Interest element of other loan repayments		(63)	(107)	(193)
Taxation refunded/(paid)		3,958	(44)	(4,192)
Net cash from operating activities		6,689	(5,055)	20,785
Cash flows from investing activities				
Investment in joint venture entities		-	(20)	(20)
Proceeds from sale of property, plant and equipment		-	-	9,500
Purchase of property, plant and equipment		(684)	(7,959)	(14,953)
Purchase of intangible assets - software and assets in the course of construction		(6,750)	(4,683)	(10,344)
Special contributions to defined benefit pension schemes		(4,075)	(4,233)	(8,310)
Interest received		565	1,203	1,565
Finance costs paid		(3,999)	(3,420)	(7,856)
Net cash used in investing activities		(14,943)	(19,112)	(30,418)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		-	635	674
Sale of own shares by employee share trusts		-	18	18
Dividends paid to shareholders	5	(4,272)	(4,692)	(7,184)
Loan facility drawn down, net of loan issues costs		-	10,000	17,656
Other loan payments		(588)	(572)	(1,172)
Loan (to)/repaid by related party		(1,302)	(1,445)	95
Finance lease principal payments		(65)	(55)	(153)
Net cash (used in)/generated from financing activities		(6,227)	3,889	9,934
Effects of exchange rate changes		78	656	333
Net (decrease)/increase in cash and cash equivalents net of bank overdrafts		(14,403)	(19,622)	634
Cash and cash equivalents net of bank overdrafts at 1 August		52,426	51,792	51,792
Cash and cash equivalents net of bank overdrafts at 31 January and 31 July	10	38,023	32,170	52,426

¹ The figures given for the six months ended 31 January 2009 are extracted from the unaudited 2009 Interim Report for the Group and the figures given for the year ended 31 July 2009 are extracted from the audited 2009 Annual Report for the Group.

Consolidated statement of change in equity (unaudited)

As at 31 January 2010

	Share Capital £000	Share Premium £000	Other Reserves £000	Retained Earnings £000	Total £000
Balance as 1 August 2008	279	27,180	22,379	69,052	118,890
Tax relief on shares issued to employees	-	-	-	113	113
Actuarial loss on pension scheme valuations	-	-	-	(36,846)	(36,846)
Deferred tax on pension scheme valuations	-	-	-	10,317	10,317
Changes in fair value of cash flow hedges	-	-	(5,766)	-	(5,766)
Currency translation differences	-	-	4,539	-	4,539
Net expense recognised directly in equity	-	-	(1,227)	(26,416)	(27,643)
Profit for the period	-	-	-	12,205	12,205
Total recognised income and expense	-	-	(1,227)	(14,211)	(15,438)
Employee share option schemes:					
- proceeds from shares issued	1	634	-	-	635
- sale of own shares by employee share trusts	-	-	18	-	18
Share based payments	-	-	-	1,011	1,011
Dividends	-	-	-	(4,692)	(4,692)
Balance as 31 January 2009	280	27,814	21,170	51,160	100,424
Balance as 1 August 2009	280	27,853	13,214	25,864	67,211
Tax relief on shares issued to employees	-	-	-	(26)	(26)
Actuarial loss on pension scheme valuations	-	-	-	(9,618)	(9,618)
Deferred tax on pension scheme valuations	-	-	-	2,693	2,693
Changes in fair value of cash flow hedges	-	-	(2,439)	-	(2,439)
Currency translation differences	-	-	928	-	928
Net expense recognised directly in equity	-	-	(1,511)	(6,951)	(8,462)
Loss for the period	-	-	-	(2,163)	(2,163)
Total recognised income and expense	-	-	(1,511)	(9,114)	(10,625)
Employee share option schemes:					
- sale of own shares by employee share trusts	-	-	26	-	26
Share based payments	-	-	-	707	707
Dividends	-	-	-	(4,272)	(4,272)
Balance as 31 January 2010	280	27,853	11,729	13,185	53,047

Notes to the condensed interim consolidated financial information (unaudited)

For the six months ended 31 January 2010

1 Basis of preparation

This condensed interim consolidated financial information, which is unaudited for the six months ended 31 January 2010, has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority. It has also been prepared in accordance with the accounting policies the Group expects to adopt in its 2010 Annual Report and unless stated are consistent with those adopted in the consolidated financial statements for the year ended 31 July 2009. These accounting policies are based on the EU-adopted International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that the Group expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 31 July 2010, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

This condensed interim consolidated financial information is not audited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. Comparative figures for the year ended 31 July 2009 have been extracted from the Group Report and Accounts, on which the auditors gave an unqualified opinion and did not include a statement under section 498 of the Companies Act 2006. The Group Report and Accounts for the year ended 31 July 2009 have been filed with the Registrar of Companies.

This condensed interim financial information for the six months ended 31 January 2010 has been prepared in accordance with IAS 34, 'Interim financial reporting', as adopted by the European Union. Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The interim financial information has been prepared under the historical cost convention except for the following items: land and buildings are valued at deemed cost and share based payments, cash flow hedges and retirement benefit obligations are fair valued.

Changes to accounting policies

The group has adopted the following accounting standards in the period which are mandatory for the financial year ended 31 July 2010:

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Directors. The disclosure under the revised standard is set out in Note 2.

New accounting standards and amendments

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year ended 31 July 2010, but do not have a material impact on the group's results:

- IFRS 2 (amendment), 'Share-based payment; Vesting conditions and cancellations.'
- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures',
- IFRIC 17, 'Distributions of non-cash assets to owners'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 August 2009 and have not been early adopted:

- IFRS 2 (amendment), 'Share-based payment; Group cash settled share based payment transactions - effective for annual periods beginning on or after 1 January 2010.
- IFRIC 18, 'Transfers of assets from customers', effective for annual periods beginning on or after 31 October 2009.

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2 Segmental analysis

Primary segment information – business segments

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports.

The Executive Directors assess the performance of the operating segments based on a measure of adjusted earnings before interest, tax and amortisation ('Underlying operating profit'). This measurement basis also excludes exceptional items from the operating segments, such as restructuring costs and impairments when the impairment is the result of an isolated, non-recurring event. Interest income and expenditure are not included in the result for each operating segment.

Analysis of results by business segment is as follows:

	Government Services £000	Highways £000	Regulated Industries £000	Total Group £000
6 months to 31 January 2010				
Revenue	141,840	123,626	46,980	312,446
Underlying operating profit	7,499	9,661	2,492	19,652
Amortisation of intangible assets arising from business combinations	(2,184)	(1,066)	(281)	(3,531)
Restructuring costs and asset impairment charges	-	-	(14,961)	(14,961)
Operating profit/(loss)	5,315	8,595	(12,750)	1,160
Interest receivable				565
Finance costs				(5,185)
Loss before tax				(3,460)
Taxation				1,297
Loss for the period				(2,163)

	Government Services £000	Highways £000	Regulated Industries £000	Total Group £000
6 months to 31 January 2009				
Revenue	148,630	118,514	98,495	365,639
Underlying operating profit	8,754	9,057	6,893	24,704
Amortisation of intangible assets arising from business combinations	(2,494)	(1,104)	(417)	(4,015)
Segment operating profit	6,260	7,953	6,476	20,689
Other exceptional items - Group				(671)
Operating profit				20,018
Interest receivable				1,203
Finance costs				(4,911)
Profit before tax				16,310
Taxation				(4,105)
Profit for the period				12,205

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2 Segmental analysis (continued)

Primary segment information – business segments (continued)

Analysis of results by business segment is as follows:

12 months to 31 July 2009	Government Services £000	Highways £000	Regulated Industries £000	Total Group £000
Revenue	303,801	255,824	180,925	740,550
Underlying operating profit	14,545	19,824	12,956	47,325
Restructuring costs and asset impairment charges	(4,740)	-	(28,134)	(32,874)
Amortisation of intangible assets arising from business combinations	(4,686)	(2,163)	(512)	(7,361)
Impairment of goodwill and intangible assets arising on business combinations	-	-	(17,141)	(17,141)
Segment operating profit/(loss)	5,119	17,661	(32,831)	(10,051)
Net gain on disposal of freehold property				3,814
Operating loss				(6,237)
Interest receivable				1,565
Finance costs				(8,834)
Loss before tax				(13,506)
Taxation				515
Loss for the year				(12,991)

Secondary segment information – geographical segments

The table below represents revenue by geographical origin (the analysis by geographical destination is not materially different to that by origin). The analysis in the table below is based on the location of the customer, which is not materially different from the location where the order was received.

Analysis of revenue by geographical segment is as follows:

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
United Kingdom	301,782	325,119	667,466
Middle East	9,415	38,053	68,648
Ireland and other overseas	1,249	2,467	4,436
Total revenue	312,446	365,639	740,550

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3 Exceptional items

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
(Costs incurred)/profit on sale of freehold property ¹	-	(671)	3,814
Restructuring costs and asset impairment charges in the Middle East ²	(14,961)	-	(21,008)
Restructuring costs and asset impairment charges in Management Consulting ³	-	-	(4,740)
Restructuring costs and asset impairment charges in Rail ⁴	-	-	(24,267)
Amortisation of intangible assets arising from business combinations ⁵	(3,531)	(4,015)	(7,361)
Total exceptional items	(18,492)	(4,686)	(53,562)

¹ The Group completed the sale of its freehold property and relocated staff and equipment prior to completion to new leasehold premises in Woking.

² The economic slow down in Dubai has resulted in the decision to close our Dubai operations following our significant presence reduction in 2009. As a result, the Group incurred restructuring charges of £5.0m (31 July 2009: £6.0m) mainly in respect of redundancies and surplus property provisions. The Group also recorded asset impairment charges in the period of £10.0m (31 July 2009: £15.0m) to reduce the value of contract receivables to the amounts the Group believes it should be able to collect.

³ Restructuring costs and asset impairment charges were incurred in the second half of 2009 to better align demand and supply for the Group's management consulting services with the current environment.

⁴ During 2009 the Group decided to substantially withdraw from the rail sector. The Group incurred restructuring charges of £7.2m, mainly in respect of redundancies and surplus property provisions, and has impaired in full the intangible assets (mainly goodwill and customer relationships) associated with the Rail business of £17.1m.

⁵ In line with market practice, the Group does not consider the amortisation of intangible assets arising from business combinations to be part of the underlying business performance and therefore treats them as exceptional costs.

4 Taxation

The tax charge for the six months ended 31 January 2010 reflects the estimated tax rate, pre exceptional items, for the full year of 25.8% (31 January 2009: 25.8%).

5 Dividends

Amounts recognised as distributions to ordinary shareholders in the period:

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
Final paid in respect of the previous year 3.85p (2009: 4.25p)	4,326	4,774	4,774
Interim paid in respect of the financial year ended 31 July 2009 2.25p	-	-	2,528
Less: dividend waived by the employee share ownership trusts	(54)	(82)	(118)
Total dividends paid	4,272	4,692	7,184

In addition, the Directors are proposing an interim dividend for the six months ended 31 January 2010 of 2.25p (31 January 2009: 2.25p) per share which will absorb an estimated £2,530,000 (31 January 2009: £2,485,000) of shareholders' funds. It will be paid on 4 June 2010 to shareholders who are on the register of members as at 30 April 2010.

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6 (Loss)/earnings per share

	6 months to 31/01/2010	6 months to 31/01/2009	12 months to 31/07/2009
Basic (loss)/earnings per share	(1.9)p	11.0 p	(11.7)p
Diluted (loss)/earnings per share	(1.9)p	10.9 p	(11.7)p
Adjusted earnings per share	9.9 p	13.9 p	26.4 p

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
(Loss)/profit for the period/year	(2,163)	12,205	(12,991)
(Loss)/earnings for basic and diluted earnings per share	(2,163)	12,205	(12,991)
Adjustments:			
- other exceptional costs (net of taxation)	10,772	483	20,205
- amortisation of intangible assets arising from business combinations (net of taxation)	2,542	2,891	5,300
- impairment of goodwill and intangible assets arising on business combinations (net of taxation)	-	-	17,141
Earnings for adjusted earnings per share	11,151	15,579	29,655

	6 months to 31/01/2010 000s	6 months to 31/01/2009 000s	12 months to 31/07/2009 000s
Weighted average number of ordinary shares	111,433	110,974	111,156
Dilutive share options	-	1,127	-
Dilutive Save As You Earn schemes	-	9	-
Diluted weighted average number of ordinary shares	111,433	112,110	111,156
Weighted average number of ordinary shares	111,433	110,974	111,156
Average number of shares held by the employee share trusts	1,405	1,921	1,709
Share options (shares held in the employee share trusts) matured in respect of executive option schemes	(468)	(574)	(520)
Adjusted weighted average number of ordinary shares	112,370	112,321	112,345

(Loss)/basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares during the period.

(Loss)/diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive share options in issue and shares under Save As You Earn Schemes. The share price used to calculate diluted earnings per share is based on a weighted average price of 211.44p (31 January 2009: 336.10p; 31 July 2009: 296.47p). Potential ordinary shares are not treated as dilutive when their conversion would increase earnings per share or decrease loss per share from continuing operations.

Adjusted earnings per share is calculated after adding back shares held by the employee share trusts to the weighted average number of shares. Earnings are adjusted to exclude exceptional items (net of taxation). The Directors believe that this additional measure provides a better indicator of the underlying trends in the business.

7 Assets held for sale

In the year ended 31 July 2008 the Group agreed to sell the freehold property and completion took place in March 2009. The sale proceeds exceeded the carrying value.

8 Borrowings

The Group has credit facilities totalling £190 million with the Royal Bank of Scotland, Lloyds TSB and Barclays. Of the £190 million, £125 million is in the form of revolving credit facilities, which reduce by £10 million in March each year, commencing 27 March 2010, with the remaining balances of £30 million expiring on 1 August 2012, and £65 million expiring on 31 October 2012. The balance of £65 million is in the form of a term loan which also falls due for repayment on 31 October 2012. As at 31 January 2010 amounts totalling £153.7 million were drawn down together with amounts utilised in respect of contingent liability bonds and guarantees of £23.0 million.

Interest is being charged at LIBOR plus a margin on the ratio of net borrowings to earnings before interest, taxation, depreciation and amortisation. The interest margin on the £60 million of the revolving credit facilities expiring in August 2012 is 0.65% to 1.50% and the interest margin on the balance of the facilities is 2.15% to 3.65% depending on gearing.

In addition there are two secured loans totalling £1.4 million at 31 January 2010 (31 July 2009 £2.0 million) which are repayable in instalments by October 2011. Interest is charged at 6.84% on the first loan and 7.44% on the second loan per annum.

Loans are repayable as follows:

	31/01/2010 £000	31/01/2009 £000	31/07/2009 £000
Obligations due within one year	1,116	59,682	2,153
Obligations due between one and two years	7,163	1,115	10,839
Obligations due between two and five years	146,882	85,546	142,758
Total loans due	155,161	146,343	155,750
Loan issue costs incurred	(4,527)	(1,093)	(3,437)
Amortisation of loan issue costs	1,039	279	604
Total borrowings	151,673	145,529	152,917
Non bank borrowings and issue costs	2,067	(1,789)	823
Cash and cash equivalents net of bank overdrafts (note 10)	(38,023)	(32,170)	(52,426)
Net bank borrowings	115,717	111,570	101,314

Loan issue costs of £4,527,000 have been capitalised and are being amortised over the life of the loan.

The Group has entered into agreements to partially hedge against the interest rate risk on the revolving credit facilities above. At 31 January 2010, the total fair value of derivatives designated as cash flow hedges was a liability of £6,801,000 (31 January 2009: £5,429,000; 31 July 2009: £4,362,000).

The Group has complied with its banking facilities covenants during the half year under review.

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9 Cash generated from operations

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
(Loss)/profit for the period/year	(2,163)	12,205	(12,991)
Adjustments for:			
- Income tax expense/(credit)	(1,297)	4,105	(515)
- Depreciation	3,435	4,240	8,406
- Gross profit on disposal of property, plant and equipment	-	-	(5,516)
- Amortisation of intangible assets	3,531	4,015	7,361
- arising from business combinations			
- software and other acquired intangibles	2,033	2,197	4,231
- Impairment of goodwill and intangible assets arising from business combinations	-	-	17,141
- Share based payments cost (excluding tax)	613	1,062	1,272
- Other exceptional costs	14,961	671	34,576
- Interest receivable	(565)	(1,203)	(1,565)
- Finance costs	5,185	4,911	8,834
- Other non-cash movement	(2,700)	(3,489)	-
Changes in working capital			
- Decrease/(increase) in trade and other receivables	2,259	(36,549)	(32,512)
- (Decrease)/increase in trade and other payables and provisions	(15,514)	3,628	4,079
Cash generated from operations before exceptional items	9,778	(4,207)	32,801
Exceptional items	(6,969)	(671)	(7,585)
Cash generated from operations	2,809	(4,878)	25,216

10 Cash and cash equivalents net of bank overdrafts

	31/01/2010 £000	31/01/2009 £000	31/07/2009 £000
Cash and cash equivalents	38,023	32,534	52,426
Bank overdrafts	-	(364)	-
Cash and cash equivalents net of bank overdrafts	38,023	32,170	52,426

Of the above cash balances £24,879,000 is restricted by virtue of it being held within our joint ventures and captive insurance company (31 January 2009: £20,238,000; 31 July 2009: £22,874,000).

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11 Retirement benefit obligations

The Group operates several occupational pension schemes for its employees. These schemes are a combination of defined benefit, defined contribution and third party defined benefit schemes.

a Schemes accounted for on a defined contribution basis

The Legal and General GPP Scheme, Parkman Defined Contribution Scheme and the Parkman Ireland Pension Scheme (DC section) are defined contribution schemes. Upon the acquisition of HBS Business Services Group Limited (MBS) and Hedra plc, the Group became responsible for their defined contribution schemes.

Some employees who transferred to the Group under the Transfer of Undertakings (Protection of Employment) Regulations (1981) as amended (TUPE) remain members of their previous schemes, which are pre-funded, defined benefit schemes. Where under the terms of the contracts, the defined benefit liability remains with the relevant council, the Group accounts for these schemes as defined contribution schemes. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

b Schemes accounted for on a defined benefit basis

The Mouchel Business Services Limited Pension Scheme (MBS), the Mouchel Superannuation Fund (MSF) and the Mouchel Staff Pension Scheme (MSPS) are funded defined benefit schemes and are disclosed as Group schemes in the tables below. In addition, MBS has admitted body status in the Teesside pre-funded defined benefit scheme as employees of MBS who were previously employed by the local council remain members of the Teesside Pension Fund. The assets and liabilities of this scheme are identified under retirement benefit obligations on the balance sheet and disclosed as third party schemes below.

Movements in the present value of the defined benefit obligation are as follows:

	Group schemes 31/01/2010 £000	Third party schemes 31/01/2010 £000	Total 31/01/2010 £000
Retirement benefit obligation at 1 August 2009	(54,891)	(5,396)	(60,287)
Service cost	(2,819)	(606)	(3,425)
Net interest income	(291)	269	(22)
Company contributions	6,827	695	7,522
Actuarial loss	(8,024)	(1,594)	(9,618)
Retirement benefit obligation at 31 January 2010	(59,198)	(6,632)	(65,830)
Current liability	(759)	-	(759)
Non-current liability	(58,439)	(6,632)	(65,071)
Total liability in the balance sheet as above	(59,198)	(6,632)	(65,830)

The amounts recognised in the income statement are as follows:

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
Current service cost - included in administrative expenses	340	373	767
Current service cost - included in cost of sales	3,085	3,387	6,967
Total current service cost	3,425	3,760	7,734
Interest cost	9,827	10,139	20,559
Expected return on plan assets	(9,805)	(10,439)	(21,205)
Net finance cost/(income)	22	(300)	(646)
Total recognised in the income statement	3,447	3,460	7,088

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11 Retirement benefit obligations (continued)

b Schemes accounted for on a defined benefit basis (continued)

	Group schemes 31/01/2010 £000	Third party schemes 31/01/2010 £000	Total 31/01/2010 £000
Actual return less expected return on pension scheme assets	15,797	3,872	19,669
Effect of changes in assumptions on the present value of scheme liabilities	(23,821)	(5,466)	(29,287)
Deferred tax on movement in scheme deficit	2,247	446	2,693
Total recognised in the statement of comprehensive income	(5,777)	(1,148)	(6,925)

For the three principal defined benefit schemes that the Group is now responsible for, the future liabilities for benefits are provided for by the accumulation of assets held externally to the Group in separate, trustee administered funds. The cost of these schemes is determined in accordance with the advice of independent, professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal business practice these valuations are undertaken on a triennial basis.

All schemes are closed to new entrants except for employees transferring to the Group under TUPE, where the Group is required to provide benefits which are broadly comparable to those provided under the Local Government Pension Scheme or another defined benefit scheme provided by the transferring employer.

Given the membership of the schemes, under the projected unit credit method, the current service cost would be expected to increase as the members of the scheme approach retirement.

The date of the last full actuarial valuations for each of the schemes was March 2007.

The key assumptions used in valuing the retirement benefit obligation at the end of the period were:

	31/01/2010 %	31/01/2009 %	31/07/2009 %
Discount rate	5.5/5.5	6.6/6.5	6.0/6.0
Expected rate of increase in pensionable salaries	3.2/2.9	5.3/5.0	3.0/3.3
Expected rate of increase in pension in payments	3.2/3.1	3.3/3.5	3.2/3.3
Expected rate of price inflations	3.2/3.2	3.3/3.5	3.3/3.3

Note: data for Group schemes is given first, followed by data for third party schemes

	31/01/2010 Years	31/01/2009 Years	31/07/2009 Years
Life expectancy at age 65:			
Current pensioners: male	87.1/87.2	87.0/87.0	87.0/87.0
female	90.0/90.1	89.9/89.9	89.9/89.9
Future pensioners: male	88.1/88.1	88.1/88.1	88.1/88.1
female	90.9/90.9	90.9/90.9	90.9/90.9

Note: data for Group schemes is given first, followed by data for third party schemes

The expected return for the scheme assets in the forthcoming year is as follows:

	%
Equities	8.8/8.8
Bonds, gilts and cash	4.8/3.1
Property	6.8/6.8

Note: data for Group schemes is given first, followed by data for third party schemes

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12 Contingent liabilities

Contingent liabilities at 31 January 2010 in respect of guarantees and indemnities in the normal course of business totalled £22,967,000 (31 January 2009: £29,807,000; 31 July 2009: £26,997,000).

In addition, bank overdrafts of subsidiaries were guaranteed at 31 January 2010 up to £5,926,000 (31 January 2009: £5,785,000; 31 July 2009: £5,907,000); the amount overdrawn at that time being £nil (31 January 2009: £364,000; 31 July 2009: £nil).

The Company and several of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. Provisions are maintained by the Group having regard to the size and nature of the claims and the Group's best estimate of the likely settlement. The Directors do not believe that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a materially adverse affect upon the Group's financial position.

13 Post balance sheet events

There have been no significant post balance sheet events.

14 Related party transactions

The following transactions were undertaken with the joint venture entities to which the Group is party:

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
Sales to joint ventures	12,045	9,883	16,778
Purchases from joint venture	988	510	222
Net amount due to the Group at the period end	5,551	6,270	8,468

Loans to related parties:

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
Balance at 1 August	1,003	1,144	1,144
Loans advanced during the period	1,326	1,470	2,846
Loan repayments received	(25)	(25)	(2,991)
Interest charged on loans	1	3	4
Balance at the end of the period	2,305	2,592	1,003

The loans to related parties are to joint venture companies.

The Group made contributions (including deficit funding) of £7,522,000 to the defined benefit pension schemes during the period (31 January 2009: £7,706,000; 31 July 2009: £15,398,000).

Compensation paid to key management of the Group was £1,102,000 for the six months (31 January 2009: £1,075,000; 31 July 2009: £2,310,000).

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15 Provisions for liabilities and charges

	6 months to 31/01/2010 £000	6 months to 31/01/2009 £000	12 months to 31/07/2009 £000
Restructuring provisions	4,335	-	5,069
Insurance provisions	3,206	3,503	5,340
Dilapidation provisions	3,662	2,275	3,542
Onerous contracts	4,842	5,337	9,347
Balance at the end of the period	16,045	11,115	23,298
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Balance at 1 August 2009	23,298		
Amounts provided for during the period	2,551		
Amounts released to the income statement	(4,259)		
Amounts consumed during the period	(5,545)		
Balance at 31 January 2010	16,045		

Independent review report to Mouchel Group plc

Introduction

We have been engaged by the company to review the condensed interim consolidated financial information in the half-yearly financial report for the six months ended 31 January 2010, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and related 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 interim consolidated financial information.

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 Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

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

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed interim consolidated financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 United Kingdom. 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 interim consolidated financial information in the half-yearly financial report for the six months ended 31 January 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
30 March 2010
London

Notes

- a) The maintenance and integrity of the Mouchel Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.