



our business
is people

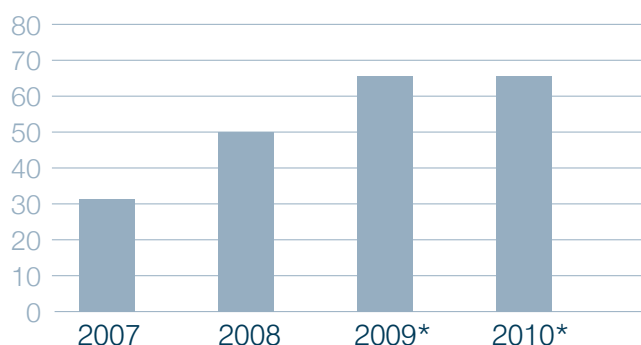
MORNEAU
SHEPELL

Progress Report 2010

Since becoming a publicly traded organization as Morneau Sobeco Income Fund in 2005, we have delivered consistent financial growth and distribution payments to our unitholders. On January 1, 2011, we converted to a public corporation and changed our name to Morneau Shepell Inc., reflecting the combination of our two key business groups. As the largest Canadian-based firm providing human resource consulting and outsourcing services, we are committed to continuing to deliver financial benefits to our shareholders.

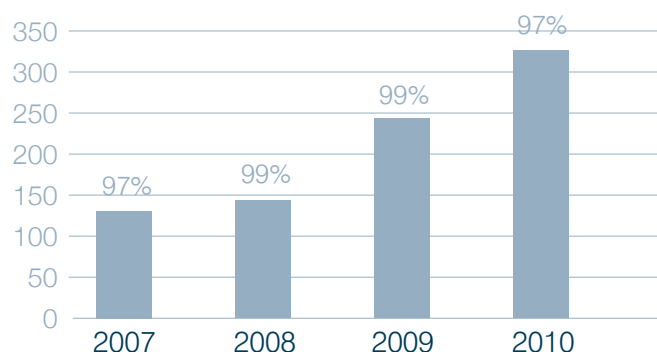
ebitda

(\$ million)



recurring revenue

(\$ million)



Percentage indicates proportion of total revenue that is recurring from prior year.

\$335M

revenue

\$64M

ebitda*

\$19M

net income

78¢

anticipated 2011 annualized dividend

*adjusted for significant non-recurring expenditures.

letter to shareholders

To our shareholders:

The past year was important for our company. In 2010, we continued to grow and develop our business of providing leading human resource consulting and outsourcing services including pension and benefit consulting and administration, employee assistance programs and workplace health management services. In 2010 we also converted from an income fund to a public corporation.

We are now Morneau Shepell. Our new name reflects the strong brands of Morneau Sobeco and Shepell fgi, both market-leading organizations with a history of expertise, professionalism and innovation. Our strategy remains the same: generate stable and predictable returns and consistent value for our shareholders. As well, our conversion to a corporate structure gives us the potential to appeal to a wider shareholder base and enhance liquidity.

Financial Performance and Outlook

The past year represented more than 40 years of continuous growth for our organization. In 2010, we once again achieved record revenues, although the pace of growth was somewhat slower than previous years. In the latter half of 2010, particularly in the last quarter, we experienced increasing sales across all of our business lines as well as growth in our consulting and outsourcing practices. This growth came in the form of new client engagements and expanding mandates with existing clients.

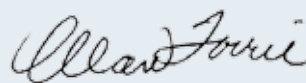
In 2010, we achieved revenue of \$335.2 million, a year-over-year increase of 1.1 percent from \$331.7 million in 2009. EBITDA in 2010 was comparable to 2009 levels at \$64 million in 2010, compared to \$64.4 million in 2009, excluding non-recurring charges related to our conversion to a public corporation and other strategic and restructuring initiatives. Applying those same adjustments to our EBITDA margin, it was 19.1 percent, in line with 2009's level of 19.4 percent.

Looking ahead, we expect that the momentum generated during the last half of 2010 will continue through 2011 and we are positive about our prospects for the coming year and beyond. We will continue to focus on driving growth in pension and benefits consulting and outsourcing, and in our employee assistance program business, where our broad service offering and market leadership give us an advantage. In our workplace health management business, we will continue to focus on expanding our client base by targeting large corporations and organizations that are experiencing employee attendance challenges. As well, the continued expansion of our service offerings to our existing clients remains a strategic priority for us.

As the new public corporation of Morneau Shepell, we would like to thank all of our shareholders, employees, clients and business partners for their continued support in 2010 and we look forward to our further success in the coming year.



Bill Morneau
Chairman



Alan Torrie
President & CEO



employee assistance programs

Employee health is a business issue. By offering solutions that help employees deal with workplace, health and family stress, and chronic health issues, an organization realizes direct benefits in shorter duration of absence, increased productivity and lower benefit costs. Employees using a Morneau Shepell Employee Assistance Program report that they can better focus on work and are more engaged. This higher engagement means they are absent less often and better able to perform in their roles. Under the brand name Shepell fgi, we help over 6,000 organizations, and over 5 million employees and their family members, address issues ranging from mental health and nutrition, to childcare and smoking cessation. EAP is proven to help employees and improve an employer's bottom line.

> 5 million
employees and family members

pension & benefit outsourcing



Pension and benefit outsourcing maximizes resources, controls costs and integrates solutions to help efficiently deliver valued benefits programs to an organization and its employees. Seamless integration of people, processes and technology creates the foundation for today's best service delivery. Morneau Shepell is one of Canada's largest administration providers to pension and benefit programs. We provide the technological, actuarial and regulatory expertise, as well as the economies of scale, to design and provide administration to programs of all sizes. Offering leading innovative online, call-centre and records-management solutions, we provide efficient and cost-effective service to benefit, pension and savings programs that cover over 2.5 million participants.

> 2.5 million
participants

workplace health management



Our Workplace Health Management solutions are focused on enhancing organizational health through improved employee health and productivity. Absent employees are costly to every organization. Whether the costs are related to short and long-term disability, drug expenses or government workers' compensation premiums, they can significantly impact an organization's bottom line. At Morneau Shepell, we pioneered an integrated solution that works with clients to create attendance support programs that focus on the individual and provide needed support and resolution to health issues. Rather than simply proving medical evidence of claim, our confidential service focuses on what employees can do to better manage their health and well-being, and assists them with programs that promote prevention, early intervention, recovery and sustainable return to work. This not only provides direct return on investment to the organization but often results in improved employee engagement through delivery of the "right care at the right time."

> 25%

decrease in average
absence duration

pension & benefit consulting



Pension and benefits plans are being affected by legislative changes, rising costs and economic and demographic changes. Compliance and regulatory requirements, along with concerns about plan design, funding, long-term sustainability and health and productivity, are on the minds of employers. Morneau Shepell's multi-disciplinary consulting teams represent one of Canada's largest and most experienced consulting practices. We bring together the actuarial, legal, health and benefits, investment, risk management and communication expertise needed to help plan sponsors navigate through today's complex issues and prepare for tomorrow's challenges. We also have the unique ability to integrate our advisory services and deep analytics with our market-leading program delivery capability in the areas of pension and benefits administration and workplace health management - thereby creating end-to-end solutions that maximize value and results for our clients.

> 40
years experience

real support

real solutions

real insight

real answers

Making a real difference: Morneau Shepell delivers results to our clients through all of our lines of business. Our unique service offering of pension and benefit consulting and outsourcing, employee assistance programs, and workplace health management allows us to build custom solutions for each of our clients. For more than 40 years, this expertise and experience has helped organizations reduce costs, increase productivity, and improve their bottom line and competitive position. We serve a broad range of large and small clients in the public and private sectors, including more than two-thirds of employers listed on the TSX60 and government agencies and municipalities across Canada and the United States.

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