



8 February 2008

**NORTHERN RECRUITMENT GROUP PLC**  
**HALF-YEARLY FINANCIAL REPORT**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2007**

***“Profitability in the first half of the current financial year was in line with our budgets”***

- Turnover £9.9m (2006: £11.2m)
- Gross profit £3.32m (2006: £3.94m), a reduction of £0.62m
  - o Core permanent recruitment up 12%
  - o Temporary recruitment down 6%
  - o NRG Connect down £0.76m
- Profit before tax £0.54m (2006: £1.0m)
- Diluted earnings per share 2.1p (2006: 4.0p)
- Balance sheet remains strong: net cash £4.71m (2006: £4.73m)
- Interim dividend maintained at 2.5p
- Successful start for new TotalNRG consortium
- NRG Connect re-branded and refocused as NRGRPO

***“Despite growing uncertainty about prospects for the UK economy as a whole in 2008, our own pipeline of new business bids and tenders remains encouraging. We are therefore budgeting for continued progress in our core permanent recruitment operations during the second half, and targeting a renewal of growth in the temporary employment arena. The revenue stream from the TotalNRG consortium is growing steadily, but the repositioning of NRG Connect as NRGRPO will take time to produce results, and we do not anticipate any uplift in activity in this area during the current financial year. In consequence, while we anticipate that Company profits in the second half will show progress compared with those of the first half, it is possible that they will not match those achieved in the second half of our previous financial year.”***

## NOTE TO EDITORS

**Northern Recruitment Group (NRG)** is a total solutions recruitment business focusing on recruitment and HR consultancy services. It aims to be the leading provider of these services in all the regions where it operates.

Based in Newcastle upon Tyne, where the business was founded by Chief Executive Lorna Moran in 1977, NRG services its clients through a network of offices across the North East, Yorkshire and Scotland.

NRG addresses both the public and private sectors, with each accounting for around half its business. Its dedicated **NRG Public Sector** division handles a wide range of assignments from national volume contracts to both executive and non-executive appointments for national, regional and local government bodies, and for not-for-profit organisations in areas such as higher education and the arts. **NRG Executive** provides specialist search and selection services for board level and other senior appointments in both the public and private sectors.

**NRG Professional Services** provides recruitment solutions in the specialist areas of finance, IT and human resources, covering executive, interim, permanent and temporary appointments across those skill ranges. **NRG Technical** specialises in middle management recruitment for manufacturing clients and has broadened its specialism to support a growing demand for skilled contractors, while **NRG City** is a high street brand dedicated to meeting the demand for quality support staff including PAs, receptionists, office managers and administrators both permanent and temporary.

NRG has significant capability to handle high volume contracts for both permanent and temporary staff. Its specialist **NRG Call Centre Solutions** business works with leading contact centres to meet their requirements for staff both temporary and permanent, while the **NRG Works** flexible resourcing division provides temporary employees for a wide range of manufacturing, engineering, warehouse and distribution businesses.

**TotalNRG** is a consortium of five leading regional recruitment specialists, led by NRG, which combines specialised local knowledge with truly national delivery capabilities.

**NRGRPO** (Recruitment Process Outsourcing) develops and implements tailor-made recruitment solutions for clients from both the private and public sectors, with the capability to handle a wide range of briefs including graduate recruitment, diversity improvement, skills assessment, attrition reduction and high volume candidate attraction through our central response handling and project management centre. Our highly flexible approach allows clients to choose NRGRPO for special projects, specific parts of their recruitment process, or full implementation from developing the initial plan through to final job offers.

NRG has a distinctive culture that focuses on excellent client service and on assuring value for money through high efficiency and tight financial control. It has been a public company since obtaining a full stock market listing in November 1997. Its aim is to achieve continued growth for the benefit of its shareholders and staff by building on its strong regional brand and reputation, combined with national delivery capabilities, and by devising and implementing innovative people solutions in partnership with its clients.

## **HALF-YEARLY FINANCIAL REPORT**

### **Business Review**

Profitability in the first half of the current financial year was in line with our budgets, and principally reflected the extremely low levels of activity at our NRG Connect national response handling unit, compared with a period in 2006 when it handled a significant amount of major project work. The resulting profit shortfall in this unit more than accounted for the overall reduction in the Company's profit compared to last year.

Our core permanent recruitment businesses continued to make pleasing progress, benefiting from our investment in additional fee-earning staff. Many of our temporary recruitment operations also did well, and we are taking action to address the areas of underperformance in this part of the Group.

The market place in which we operate remained generally robust in the six months under review. The primary exception to this was the absence of major public sector contracts, principally affecting NRG Connect.

**NRG Executive**, filling board level and other senior positions in both the public and private sectors, continued to perform particularly well. We have further extended our higher education portfolio, winning a number of valuable new commissions and filling several senior positions for University College London. We have also made good progress in the healthcare sector. During the first half we doubled the number of staff in our Executive team and made two senior appointments focusing exclusively on the development of our business in the private sector. This is now beginning to bear fruit.

**NRG Call Centre Solutions**, specialising in the provision of both permanent and temporary contact centre staff, built further on its very successful performance last year. Following the completion of a high volume contract for British Airways' Newcastle contact centre, we have expanded our involvement in the provision of recruitment services for this client both here and in Manchester. Our work for Newcastle Building Society, Barclays and Freedom Direct has continued to expand, and recently we have been selected as a national supplier to a blue chip company following their rationalisation of temporary staff providers.

**NRG Works**, our flexible resourcing division, continued to make good progress in the automotive, food and pharmaceutical sectors. A large temporary contract was converted to permanent positions which resulted in reduced overall revenues in comparison to last year.

**NRG City**, dedicated to the provision of high quality support staff, had a challenging first half across all its operating centres. Management action is now being taken to address this underperformance. Following successful re-tenders, we retained our contract with Durham University for the provision of temporary staff, and extended our contract with the East Riding of Yorkshire and North Lincolnshire Councils for the provision of temporary clerical workers to include additionally industrial, catering, accountancy and audit staff.

**TotalNRG** is a consortium of regional recruitment specialists, led by NRG, established in 2007. It secured a place on the pan-Government framework contract for the provision of recruitment services, and has now begun to supply high quality temporary staff to a wide range of Government organisations including HM Prison Service, the Crown Prosecution Service, Border & Immigration Agency, the Home Office, Security Industry Authority and HM Revenue & Customs. The innovative consortium model is proving robust and effective in delivering staff in all parts of the UK, capitalising on the local knowledge of our partners, and in ensuring tight management control throughout the process.

**NRG Connect**, our national response handling unit, experienced a fall in its gross profit contribution of almost £0.8m as a result of the absence of the high volume public sector contracts which have been its mainstay. We have responded to this change in the business environment by widening our range of recruitment services. To reflect the change this unit is to be rebranded as **NRGRPO** (Recruitment Process Outsourcing) and will be targeting private as well as public sector clients.

**NRG Scotland** continues to offer scope for improvement in profitability. However following a successful re-tender after three years as a strategic recruitment partner with Scottish Water, we were pleased to secure preferred supplier status for the provision of technical and operations staff and we have also won a new contract to supply temporary staff to the National Health Service in Scotland.

Our **Newcastle** and **Tees Valley** offices have been the principal beneficiaries of the expansion of **NRG Professional Services Group** with a strengthened team in **NRG Finance**, continued good growth in **NRG Scientific** and a successful first half for **NRG Engineering**. A number of key strategic preferred supplier agreements were gained in the first half including Sabic and eaga plc. We have relocated our **Tees Valley** office to enlarged and improved premises in Middlesbrough to enable us to improve our exploitation of the many opportunities in this city-region.

## **Financial Review**

Company sales in the period were £9.9m compared to £11.2m in the same period last year.

Gross profit, a key performance indicator (KPI), was £3.32m compared to £3.94m last year. Analysis of this change shows that fees from our core permanent business rose by 12 per cent compared to the same period last year, whilst gross profit from temporary placements fell by 6 per cent; in addition NRG Connect was down from £0.78m to £0.02m due to the lack of large project work in the first six months of this year.

A further KPI is the percentage margin on sales revenues from the supply of temporary workers.

This improved from 16.2 in the six months to December 2006 to 16.7 in the period under review, mainly because of the changed mix of business.

Payroll costs are the largest component of the Company's administrative costs. They rose to £2.07m from £2.02m in the same period last year.

Whilst gross profit fell by £0.62m as explained above, the reduction in operating profit was confined to £0.48m - £0.40m this year, £0.88m last year - due to savings in operating costs.

Cash balances at the end of the period were £4.71m, close to their level in December 2006 (£4.73m). There was a cash outflow £0.60m in the first six months of the year after capital expenditure of £0.13m and dividends of £0.87m.

Income tax for the period shown in the income statement is £0.17m as detailed in note 3. This compares with £0.31m for the first six months of last year.

Basic and diluted earnings per share were 2.1p compared to 4.0p for the corresponding period in the previous year.

## **Risks and uncertainties**

As required under IAS 34 'Interim Financial Reporting' and the new UKLA Disclosure and Transparency Rules (DTR), the Board is providing a description of the principal risks and uncertainties for the remainder of the financial year ending 30 June 2008.

### The UK economy

- The performance of employment businesses in the UK has traditionally been linked to national economic growth.

### Legislative changes

- Restricting the flexibility of movement of workers could adversely affect the recruitment sector.

### Competition

- The market for the supply of temporary and permanent recruitment services is highly fragmented and competitive.

### Commercial relationships

- The company has key clients in the public and private sectors.

### Technology

- The recruitment sector is increasingly reliant upon technology platforms.

The Board conducts a review of business risks and has implemented procedures to allow the Directors to monitor these risks on a regular basis. These are more fully described in the Company's Annual Reports.

## **Dividend**

In the light of the Company's strong financial position, the Board has declared an unchanged interim dividend of 2.5p. It will be paid on 28 March 2008 to those shareholders on the register at the close of business on 14 March 2008. The ex-dividend date will be 12 March 2008.

## **People**

We have continued to strengthen the business through training, development, promotion and external recruitment. The addition of experienced fee-earners to our team has made a major contribution to the progress we have been able to achieve in our core permanent recruitment operations. The Board is grateful for the continuing efforts of every single member of the NRG team in all parts of the Group.

## Outlook

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Despite growing uncertainty about prospects for the UK economy as a whole in 2008, our own pipeline of new business bids and tenders remains encouraging. We are therefore budgeting for continued progress in our core permanent recruitment operations during the second half, and targeting a renewal of growth in the temporary employment arena. The revenue stream from the TotalNRG consortium is growing steadily, but the repositioning of NRG Connect as NRGRPO will take time to produce results, and we do not anticipate any uplift in activity in this area before the end of our current financial year. In consequence, while we anticipate that Company profits in the second half will show progress compared with those of the first half, it is possible that they will not match those achieved in the second half of our previous financial year.

BY ORDER OF THE BOARD

Leo Finn

Lorna Moran

Chairman

Chief Executive

8 February 2008

8 February 2008

**Responsibility statement of the directors in respect of the half-yearly financial report**

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year 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 year.

BY ORDER OF THE BOARD

Leo Finn

Chairman

8 February 2008

Lorna Moran

Chief Executive

8 February 2008

<b>Condensed income statement</b>	Notes	6 months ended 31 December 2007 Unaudited	6 months ended 31 December 2006 Unaudited	Year ended 30 June 2007 Audited
		£'000	£'000	£'000
<b>Revenue</b>		9,908	11,207	22,336
Cost of Sales		(6,588)	(7,267)	(14,751)
<b>Gross profit</b>		3,320	3,940	7,585
Administrative expenses		(2,915)	(3,056)	(5,787)
<b>Operating profit</b>		405	884	1,798
Financial income		138	118	238
<b>Profit before tax</b>		543	1,002	2,036
Tax	3	(168)	(311)	(621)
<b>Profit for the period attributable to the equity holders of the parent</b>		375	691	1,415
Basic earnings per share (pence)	4	2.1	4.0	8.1
Diluted earnings per share (pence)	4	2.1	4.0	8.1

There were no items of income or expense for the current or comparative period other than those reported in the condensed income statement.

<b>Condensed balance sheet</b>	Notes	6 months ended 31 December 2007 Unaudited £'000	6 months ended 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Audited £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		377	364	348
Investment in subsidiaries		-	-	-
Deferred tax assets		52	79	69
		<u>429</u>	<u>443</u>	<u>417</u>
<b>Current assets</b>				
Trade and other receivables		3,287	4,080	3,717
Cash & cash equivalents		4,710	4,731	5,308
		<u>7,997</u>	<u>8,811</u>	<u>9,025</u>
<b>Total assets</b>		<u><b>8,426</b></u>	<u><b>9,254</b></u>	<u><b>9,442</b></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade & other payables		(1,854)	(2,362)	(2,310)
Income tax payable		(164)	(268)	(241)
		<u>(2,018)</u>	<u>(2,630)</u>	<u>(2,551)</u>
<b>Total liabilities</b>		<u><b>(2,018)</b></u>	<u><b>(2,630)</b></u>	<u><b>(2,551)</b></u>
<b>Net assets</b>		<u><b>6,408</b></u>	<u><b>6,624</b></u>	<u><b>6,891</b></u>
<b>EQUITY</b>				
<b>Share capital and reserves</b>				
Share capital	6	875	874	874
Share premium account	6	726	719	719
Capital redemption reserve	6	43	43	43
Retained earnings	6	4,764	4,988	5,255
<b>Total equity attributable to equity holders of the parent</b>	<b>6</b>	<u><b>6,408</b></u>	<u><b>6,624</b></u>	<u><b>6,891</b></u>

<b>Condensed cash flow statement</b>	Notes	6 months ended 31 December 2007 Unaudited £'000	6 months ended 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Audited £'000
<b>Cash flows from operating activities</b>				
Profit for the period		375	691	1,415
Adjusted for:				
Depreciation		97	107	199
Financial income		(138)	(118)	(238)
Profit on sale of property, plant & equipment		(10)	-	(3)
Share-based payment expenses		15	29	18
Taxation		168	311	621
		<hr/>	<hr/>	<hr/>
Cash flows from operating activities before working capital movements		507	1,020	2,012
Decrease/(Increase) in trade and other receivables		430	(556)	(193)
(Decrease)/Increase in trade and other payables		(456)	323	271
		<hr/>	<hr/>	<hr/>
<b>Cash inflow from the operating activities</b>		481	787	2,090
Income tax paid		(235)	(193)	(529)
		<hr/>	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>		246	594	1,561
		<hr/>	<hr/>	<hr/>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment		10	-	3
Interest received		138	118	38
Acquisition of property, plant and equipment		(126)	(19)	(95)
		<hr/>	<hr/>	<hr/>
<b>Net cash inflow from investing activities</b>		22	99	146
		<hr/>	<hr/>	<hr/>
<b>Cash flows from financing activities</b>				
Proceeds from the issue of share capital	6	8	24	24
Dividends paid	6	(874)	(874)	(1,311)
		<hr/>	<hr/>	<hr/>
<b>Net cash outflow from financing activities</b>		(866)	(850)	(1,287)
		<hr/>	<hr/>	<hr/>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(598)	(157)	420
Cash and cash equivalents at the start of the period		5,308	4,888	4,888
		<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>		<b>4,710</b>	<b>4,731</b>	<b>5,308</b>
		<hr/>	<hr/>	<hr/>

## Unaudited Notes

### 1. Basis of preparation and accounting policies

The interim financial information for the six months ended 31 December 2007, including comparative financial information, has been prepared on the basis of the accounting policies set out in the last annual report and accounts and in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, as issued by the International Accounting Standards Board and adopted by the European Union. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the statutory accounts for the Company as at and for the year ended 30 June 2007.

The condensed financial statements are unaudited and were approved by the Board of Directors on 8 February 2008.

The comparative figures for the financial year ended 30 June 2007 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

### 2 Segmental reporting

Business is the basis of the Company's primary segmentation. The Company operates in one business segment being the provision of recruitment services. As a result no additional business segment information is required to be provided. It operates in one geographical segment, the United Kingdom, and therefore no additional segment information is required to be provided.

### 3. Taxation

	6 months ended 31 December 2007 £'000	6 months ended 31 December 2006 £'000	12 months ended 30 June 2007 £'000
<b>Current tax expense</b>			
Current year	158	311	613
Adjustment for prior years	-	-	12
	<u>158</u>	<u>311</u>	<u>625</u>
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	10	-	4
Adjustments for prior years	-	-	(12)
Effect of tax rate change on opening balance	-	-	4
	<u>10</u>	<u>-</u>	<u>(4)</u>
	<u>168</u>	<u>311</u>	<u>621</u>
<b>Total tax in income statement</b>			

#### 4. Earnings per share

Earnings per share and diluted earnings per share are calculated by reference to a weighted average number of ordinary shares calculated as follows:

	6 months ended 31 December 2007	6 months ended 31 December 2006	12 months ended 30 June 2007
Basic weighted average number of shares in issue	17,478,738	17,463,341	17,470,448
Employee share options	31,242	112,825	79,915
Weighted average number of diluted shares outstanding	17,509,980	17,576,166	17,550,363

#### 5. Dividends

The following dividends were declared and paid by the Company:

	6 months ended 31 December 2007	6 months ended 31 December 2006	12 months ended 30 June 2007
Dividend paid per ordinary share (pence per share)	5.0	5.0	7.5
Total dividend paid (£'000)	874	874	1,311

For the 6 months ended 31 December 2007 a dividend of 2.5p (6 months ended 31 December 2006 2.5p, 12 months ended 30 June 2007 7.5p) per ordinary share amounting to £438,000 (6 months ended 31 December 2006 £437,000, 12 months ended 30 June 2007 £1,311,000) was approved by the directors on 8 February 2008. It has not been included as a liability as at 31 December 2007.

## 6. Share capital and reserves

	Share capital	Share premium	Capital redemption reserve	Retained earnings	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 July 2007</b>	874	719	43	5,255	<b>6,891</b>
Total recognised income and expense	-	-	-	375	<b>375</b>
Shares issued in the period	1	7	-	-	<b>8</b>
Share based payment transactions net of tax	-	-	-	8	<b>8</b>
Dividends	-	-	-	(874)	<b>(874)</b>
<b>Balance at 31 December 2007</b>	<b>875</b>	<b>726</b>	<b>43</b>	<b>4,764</b>	<b>6,408</b>
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 July 2006</b>	872	697	43	5,142	<b>6,754</b>
Total recognised income and expense	-	-	-	691	<b>691</b>
Shares issued in the period	2	22	-	-	<b>24</b>
Share based payment transactions net of tax	-	-	-	29	<b>29</b>
Dividends	-	-	-	(874)	<b>(874)</b>
<b>Balance at 31 December 2006</b>	<b>874</b>	<b>719</b>	<b>43</b>	<b>4,988</b>	<b>6,624</b>
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 July 2006</b>	872	697	43	5,142	<b>6,754</b>
Total recognised income and expense	-	-	-	1,415	<b>1,415</b>
Shares issued in the period	2	22	-	-	<b>24</b>
Share based payment transactions net of tax	-	-	-	9	<b>9</b>
Dividends	-	-	-	(1,311)	<b>(1,311)</b>
<b>Balance at 30 June 2007</b>	<b>874</b>	<b>719</b>	<b>43</b>	<b>5,255</b>	<b>6,891</b>

The number of ordinary shares in issue at 31 December 2007 was 17,506,080 (31 December 2006: 17,487,080, 30 June 2007: 17,487,080).

## 7. Interim Report

The interim report is being posted to all shareholders and copies are available on the company's website [www.nrgplc.com](http://www.nrgplc.com) and on application to the Company Secretary, Northern Recruitment Group plc, 56 Grey Street, Newcastle upon Tyne NE1 6AH.