

February 2006



NORTHERN RECRUITMENT GROUP PLC
INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

"As we indicated at our AGM in October, profits for the first half were below those of the comparable period last year. We have created a strong platform for the future growth of the Group by expanding our management and delivery teams."

- Profit before tax £1.1m (2004: £1.6m)
- Diluted earnings per share 4.4p (2004: 6.4p)
- Net cash £4.8m (2004: £6.3m) after £3.3m dividend payments
- Interim dividend re-based to 2.5p (2004: 1.0p)
- Temporary recruitment revenues down 19%: new management appointed at NRG Works
- Permanent recruitment revenues down 6.5%: fewer major projects at NRG Connect mask good progress in most other operations

"The Group's results for the current year will depend critically on the outcome of our current tenders for a number of projects, which may deliver substantially increased activity at NRG Connect. At present this cannot be guaranteed, and trading in the first month of the second half has been below budget and the level of last year. However, we can say with confidence that our team of excellent people is of a higher quality than ever, and that all are working hard to deliver success. Many of our major businesses are continuing to make satisfactory progress, and areas of underperformance in the first half are being tackled decisively. We remain sure that the Group possesses both the expertise and the financial resources it needs to deliver long term growth."

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

As we indicated at our AGM in October, profits for the first half were below those of the comparable period last year. We have created a strong platform for the future growth of the Group by expanding our management and delivery teams. The Group's performance also reflected continued weakness in revenues from temporary recruitment, and new management has been put in place with a clear brief to address this. NRG Connect, our national response handling division, derived less benefit from major project work than in 2004, and provides a further major opportunity for revenue growth.

Results

Revenues in the six months to 31 December 2005 were £9.3 million (2004: £11.1 million), a reduction of 16%. This comprised a 19% decline in revenues from temporary placements, and a 6.5% reduction in fees from permanent recruitment, where a 16.5% drop in turnover from NRG Connect, as a result of lower project activity, masked good progress by most of our other permanent recruitment operations.

Gross profit was 11% lower at £3.8 million (2004: £4.2 million), while administrative expenses rose by 2% to £2.77 million (2004: £2.71m) as a result of our investment in additional people. NRG Connect's flexible cost model ensured that expenses in this business area were reduced in line with demand.

Interest receivable rose 30% to £0.16 million (2004: £0.12 million) as the result of higher average cash balances, prior to the return of a total of £3.1 million to shareholders through our increased final dividend and £2.0 million special dividend in October.

Profit before tax was £1.14 million (2004: £1.64 million), a reduction of 30% albeit compared with a very strong first half in which our pre-tax profit rose by 63%. Diluted earnings per ordinary share were 32% lower at 4.4 pence (2004: 6.4 pence).

Finances

The Group has remained cash generative despite the reduction in profits in the period. At the end of the half year we had net cash balances of £4.8 million (2004: £6.3 million), a reduction of £1.5 million since December 2004 but after dividend payments totalling £3.3 million over the same 12 month period.

Dividend

At the end of our last financial year the Board re-based the ordinary dividend for the year to 7.5 pence (2004: 2.85 pence), to reflect the financial strength of the Group and our confidence in its future prospects. The Board has now declared an interim dividend of 2.5 pence per share (2004: 1.0 pence), reflecting its intention that in future dividends should be paid in the approximate proportions of one third at the interim and two thirds at the final. The interim dividend will be paid on 17 March to those on the register at the close of business on 3 March 2006. The ex dividend date will be 1 March 2006.

Trading highlights

Our permanent recruitment businesses focused on the private sector nearly all made good progress during the first half. **NRG Call Centre Solutions** performed particularly strongly, achieving an excellent result based on a strong pipeline of business with many major clients, including the extension of its work for npower into additional regions. Temporary revenues for this division were, however, much lower partly reflecting the trend to permanent recruitment.

NRG Professional Services also did well, benefiting from strong demand for senior staff from the private sector, and the expansion of our team of experienced consultants. The major technical changes affecting the accounting profession provided a favourable climate for

good growth by **NRG Finance**, while **NRG Technical** achieved a strong performance as it increased its market share in such areas as the recruitment of manufacturing managers and project engineers.

NRG City performed well in its new Tees Valley office, and in York, though lower demand for temporary support staff adversely affected its principal operation in Newcastle.

NRG Public Sector achieved good progress in many areas, though its overall contribution was lower than in the previous first half as the result of reduced high volume project activity. We extended our contract with the Cabinet Office for senior civil service recruitment, and have been awarded supplier status for professional contractors on the OGC Catalist framework. We continued to serve a wide range of Government departments throughout the UK, and were pleased to be selected to handle our first assignments for the Home Office. We have won valuable additional business in Scotland, while in the English regions we have benefited from strong demand for experienced non-executive directors across a wide range of public sector bodies.

NRG Connect, our national response handling unit, remains a major asset to the Group and continues to operate successfully and profitably, delivering high levels of client satisfaction. However, capacity utilisation was well below the peak levels achieved in the first half of last year, despite our continuing work for HM Revenue & Customs and the DTI, and for new public sector clients including OFSTED. Our capabilities and proven track record give us real strength when tendering for national projects, and we are actively pursuing a wide range of work to increase utilisation of this valuable facility.

NRG Works, the new brand for our flexible resourcing business, was affected by the general reduction in demand for temporary staff across the market place, but also failed to capitalise on the growth opportunities which do exist. Additional management has been appointed, addressing areas of real potential including the civil engineering marketplace.

Our new **Tees Valley** office in Stockton has fully lived up to its initial promise, and our **Middlesbrough** and **York** branches also performed well during the first half. In **Scotland**, there remains considerable scope to raise returns towards the Group average.

People

We have significantly strengthened our teams of consultants and managers across the Group during the current financial year, giving us the high quality resources we need to compete effectively in all our markets, deliver client satisfaction and so create shareholder value. At the centre, we have appointed a new divisional managing director, Robert Dunbar, with overall responsibility for our Works, City and Call Centre Solutions brands, and for our regional offices. This has freed our Group Managing Director Therese Liddle to focus more on business development particularly on the potential of NRG Connect.

Outlook

The Group's results for the current year will depend critically on the outcome of our current tenders for a number of projects, which may deliver substantially increased activity at NRG Connect. At present this cannot be guaranteed, and trading in the first month of the second half has been below budget and the level of last year. However, we can say with confidence that our team of excellent people is of a higher quality than ever, and that all are working hard to deliver success. Many of our major businesses are continuing to make satisfactory progress, and areas of underperformance in the first half are being tackled decisively. We remain sure that the Group possesses both the expertise and the financial resources it needs to deliver long term growth.

Leo Finn, Chairman
Lorna Moran, Chief Executive

Consolidated income statement

	6 months ended 31 December 2005 Unaudited £'000	6 months ended 31 December 2004 Unaudited £'000	Year ended 30 June 2005 Audited £'000
Revenue	9,321	11,063	21,682
Cost of Sales	(5,570)	(6,838)	(13,306)
Gross profit	3,751	4,225	8,376
Administrative expenses	(2771)	(2,709)	(4,952)
Operating profit	980	1,516	3,424
Finance income	159	122	271
Profit before tax	1,139	1,638	3,695
Income tax	(353)	(510)	(1,112)
Profit for the period attributable to the equity holders of the parent	786	1,128	2,583
Basic earnings per share (pence)	4.5	6.5	15.0
Diluted earnings per share (pence)	4.4	6.4	14.5

There were no gains or losses for the current or comparative period other than those reported in the consolidated income statement.

Consolidated Balance Sheet as at

	31 December 2005 Unaudited £'000	31 December 2004 Unaudited £'000	30 June 2005 Audited £'000
ASSETS			
Non-current assets			
Property, plant and equipment	498	731	609
Deferred tax assets	99	91	106
	<u>597</u>	<u>822</u>	<u>715</u>
Current assets			
Trade and other receivables	3,156	3,225	3,397
Cash & cash equivalents	4,848	6,306	7,711
	<u>8,004</u>	<u>9,531</u>	<u>11,108</u>
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Total assets	8,601	10,353	11,823
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LIABILITIES			
Current liabilities			
Trade & other payables	(1,733)	(2,432)	(2,492)
Current tax liabilities	(360)	(465)	(592)
Total current liabilities	(2,093)	(2,897)	(3,084)
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Net assets	6,508	7,456	8,739
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EQUITY			
Capital & reserves			
Issued capital	873	863	863
Share premium account	697	592	592
Capital redemption reserve	43	43	43
Retained earnings	4,895	5,958	7,241
Total equity attributable to equity holders of the parent	6,508	7,456	8,739

Consolidated statement of cash flows

	6 months ended 31 December 2005 Unaudited £'000	6 months ended 31 December 2004 Unaudited £'000	Year ended 30 June 2005 Audited £'000
Cash flows from operating activities			
Profit for the period	786	1,128	2,583
Depreciation	129	126	259
Share based payment expenses	23	19	41
(Profit)/Loss on sale of property, plant & equipment	-	(5)	9
Finance income	(159)	(122)	(271)
Income tax expense	353	510	1,112
Decrease/(Increase) in debtors	194	(128)	(250)
Decrease in creditors	(718)	(217)	(156)
Cash from operating activities	608	1,311	3,327
Income tax paid	(592)	(491)	(1,030)
Net cash inflow from operating activities	16	820	2,297
Cash flows from investing activities			
Acquisition of property, plant & equipment	(17)	(203)	(214)
Proceeds from sale of property, plant & equipment	-	27	13
Interest received	159	122	271
Net cash (inflow)/outflow from investing activities	142	(54)	70
Cash flows from financing activities			
Proceeds from the issue of share capital	115	31	31
Purchase of own shares	-	-	(24)
Dividends paid	(3,136)	(347)	(519)
Net cash outflow from financing activities	(3,021)	(316)	(512)
Net (decrease)/increase in cash & cash equivalents	(2,863)	450	1,855
Cash & cash equivalents at the start of the period	7,711	5,856	5,856
Cash & cash equivalents at the end of the period	4,848	6,306	7,711

Consolidated Statement of Changes in Equity

Unaudited	Attributable to equity shareholders				Total
	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 July 2005	863	592	43	7,241	8,739
Shares issued in the period	10	105	-	-	115
Profit for the period	-	-	-	786	786
Share based payments	-	-	-	9	9
Equity dividends	-	-	-	(3,141)	(3,141)
At 31 December 2005	873	697	43	4,895	6,508

Unaudited	Attributable to equity shareholders				Total
	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	860	564	43	5,136	6,603
Shares issued in the period	3	28	-	-	31
Profit for the period	-	-	-	1,128	1,128
Share based payments	-	-	-	41	41
Equity dividends	-	-	-	(347)	(347)
At 31 December 2004	863	592	43	5,958	7,456

Audited	Attributable to equity shareholders				Total
	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	860	564	43	5,136	6,603
Shares issued in the period	3	28	-	-	31
Profit for the period	-	-	-	2,583	2,583
Purchase of own shares	-	-	-	(24)	(24)
Share based payments	-	-	-	64	64
Equity dividends	-	-	-	(518)	(518)
At 30 June 2005	863	592	43	7,241	8,739

Notes

1. Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of Northern Recruitment Group plc, for the year ending 30 June 2006, be prepared in accordance with International Financial Reporting Standards adopted for use in the EU ("IFRSs").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs effective (or available for early adoption) at 30 June 2006, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied accounting policies which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 30 June 2006.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 30 June 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 30 June 2006.

The preparation of this financial information resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous Generally Accepted Accounting Practice (GAAP). The revised accounting policies have been applied consistently to all periods presented in this financial information.

IFRS 1 mandates that most IFRSs are applied fully retrospectively, meaning that the opening balance sheet at 1 July 2004 is restated as if those accounting policies had always been applied. There are certain limited exemptions to this requirement.

A detailed review of the changes in our accounting policies and reconciliations of our financial information from UK GAAP to IFRS at key dates has today been published to the London Stock Exchange and is available on our website at <http://www.nrgplc.com/>

2. Accounting policies

The accounting policies that the Group intends to apply for the year ending 30 June 2006 are set out in the document referred to in note 1. The adoption by the Group of IAS 32 and IAS 39 prospectively from 1 July 2005 has had no impact on the accounting policies due to the nature of any financial instruments used.

3. Status of financial information

The comparative figures for the year ended 30 June 2005 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statement under section 237(2) or (3) of the Companies Act 1985.

The interim information for the 6 months ended 31 December 2005 and 31 December 2004 has not been audited or reviewed by the auditors. In relation to the financial statements for the year ended 30 June 2005, this has been extracted from a restatement of the financial information taken from the company's statutory accounts for that financial year and the auditors have issued a special purpose audit report on that financial information. This audit report can be found along with the detailed review referred to in note 1.

4. Dividends

The following dividends were declared and paid by the Group:

	6 months to 31 December 2005	6 months to 31 December 2004	12 months to 30 June 2005
Dividend per ordinary share (pence per share)	18.0	2.0	3.0
Total dividend paid (£'000)	3,136	347	519

For the 6 months to 31 December 2005 a dividend of 2.5p per ordinary share is proposed (6 months to 31 December 2004 1.0p, 12 months to 30 June 2005 19.0p) amounting to £436,000 (6 months to 31 December 2004 £172,000, 12 months to 30 June 2005 £3,280,000).

5. Interim report

The interim report is being posted to all shareholders and copies are available on application to the Company Secretary, Northern Recruitment Group plc, 56 Grey Street, Newcastle upon Tyne, NE1 6AH.