

16 February 2007



NORTHERN RECRUITMENT GROUP PLC
INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

"Underlying business performance in the first half was in line with our budgets and targets."

- Turnover up 20% to £11.2m (2005: £9.3m)
 - Temporary recruitment revenues up 28%
 - Core permanent recruitment fees up 5%
 - NRG Connect revenues down 15%
- Gross profit up 5% to £3.94m (2005: £3.75m)
- Profit before tax £1.0m (2005: £1.14m), after £0.14m bad debt provision
- Diluted earnings per share 4.0p (2005: 4.4p)
- Balance sheet remains strong: net cash £4.7m (2005: £4.8m)
- Interim dividend maintained at 2.5p

"Our core permanent and temporary recruitment businesses have both continued to make progress in the first month of the second half. The new business pipeline is exceptionally strong, and we are awaiting the outcome of a number of bids and tenders which have the potential to deliver significantly improved levels of utilisation at NRG Connect. However, the achievement of an improved performance over the year as a whole is contingent on our success in this key area, and we will update the market once this becomes clearer."

ENQUIRIES:

Northern Recruitment Group

Lorna Moran, Chief Executive

Tel: 0191 260 4412

Hudson Sandler

Nick Lyon

Tel: 020 7796 4133

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. Its **NRG Connect** business designs and manages high volume national recruitment projects. Clients have the opportunity to select full or part process: from applicant attraction and assessment through to final job offers.

NRG services 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 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.

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.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Underlying business performance in the first half was in line with our budgets and targets. Our flexible resourcing division delivered strong growth in temporary recruitment revenues, following its strategic repositioning and re-branding, and the strengthening of its management team. The Company's core permanent recruitment operations also made solid progress, offset by an expected reduction in high volume project work at NRG Connect, our national response handling unit. The pre-tax outturn was impacted by our first significant bad debt provision in 25 years.

Results

Turnover in the six months to 31 December 2006 grew by 20% to £11.2 million (2005: £9.3 million). Revenues from temporary placements increased by 28%, while fees from permanent recruitment declined by 1% overall, with growth of 5% in our other core operations masked by a 15% decline in turnover at NRG Connect.

Gross profit increased by 5% to £3.94 million (2005: £3.75 million). The gross contribution from temporary placements grew by 21%, representing an average margin of 16.2% (2005: 17.2%). In permanent recruitment, profitability exactly mirrored turnover, with a 15% reduction at NRG Connect offsetting a 5% improvement in our other operations.

Administrative expenses grew by 10% to £3.06 million (2005: £2.77 million). The principal factors here were a bad debt provision of £144,000, and a 7% or £135,000 rise in payroll costs. The provision follows the appointment of administrators last month at a former client in the food processing industry, to which we had supplied high volumes of temporary staff for its pre-Christmas production peak. The payroll increase reflects our recruitment of increased numbers of experienced fee-earners as part of our continued investment in the business for future growth.

As a result of these cost increases, operating profit was 10% lower than in the first half last year at £0.88 million (2005: £0.98 million). A 26% reduction in finance income to £0.12 million (2005: £0.16 million) reflected lower average cash balances following the re-basing of our ordinary dividend and the payment of a £2 million special dividend last year. In consequence, profit before tax of £1.0 million (2005: £1.14 million) was 12% lower than in the comparable period last year.

Diluted earnings per share were 4.0 pence (2005: 4.4 pence), a reduction of 10%.

Finances

The Company retains a strong balance sheet, with net cash at the end of the first half of £4.7 million, compared with £4.8 million in December 2005 and £4.9 million at our financial year-end in June 2006. The modest reduction during the first half reflects payment of the final dividend at a cost of £0.9 million. Trade receivables rose by £0.5m in the half year as a result of the growth in sales.

Dividend

The Board has declared a maintained interim dividend of 2.5 pence per share, and intends to review the final dividend in the light of both performance for the year and the Company's strong cash position. The interim dividend will be paid on 30 March 2007 to those shareholders on the register at the close of business on 16 March 2007. The ex dividend date will be 14 March 2007.

Trading highlights

The market place remained robust across all sectors of our business. The strongest underlying progress was made by our flexible resourcing division, **NRG Works**, which demonstrated substantial benefits from the development of its new brand identity and the strengthening of its management last year. Particularly strong progress was made in the engineering and packaging sectors, with highlights including the operation of assessment centres and the provision of temporary staff for Cummins, building on our already strong relationship in permanent recruitment.

The bad debt arising in the food processing sector is our first such experience in 25 years of supplying high volume temporary staff, and reflects the sudden collapse of a client immediately after its Christmas peak. Whilst we are confident that our procedures for controlling credit and collecting payments are robust, we are conducting a thorough review to identify any opportunities for improvement.

NRG Professional Services continued to perform strongly, particularly in senior executive recruitment for public sector clients. Major assignments completed during the first half included the recruitment of a Chair, Chief Executive and 14-strong Board for the new Business Link for North East England, and senior appointments for the University of Edinburgh. We have further strengthened this division through the recruitment of additional staff, and expect these new teams to deliver benefits during the second half.

NRG Call Centre Solutions, specialising in the supply of contact centre staff for many well-known businesses, made further solid progress. **NRG City**, dedicated to the provision of high quality support staff, made a slightly reduced contribution despite a very strong performance by our office in Tees Valley.

NRG Public Sector continued to deliver both senior and support staff to a wide range of central and local government bodies, public-private partnerships and not-for-profit organisations, though high volume project work was at a lower level than in the first half last year.

NRG Connect continues to operate successfully and profitably, and remains a key source of competitive advantage for NRG. During the first half it successfully handled our first major assignment for the Home Office and maintained its excellent relationships with a number of other public sector bodies, including HM Revenue & Customs. Overall, however, there was a reduction in the number of major projects handled compared with the previous first half.

Tees Valley produced the strongest performance among our regional offices in the first half, though our headquarters in **Newcastle upon Tyne** remained the principal fee generator. Although their financial performance improved only modestly during the half, our operations in **Scotland** have benefited from new management appointments and are successfully developing a stronger and more diversified client base.

Across NRG's business as a whole, the growth in temporary recruitment volumes has increased the proportion of our revenues derived from the private sector.

People

We have continued to strengthen the business through the recruitment of experienced fee-earners. Our underlying results have already begun to reflect the measures we took last year to address areas of underperformance, notably in the temporary staff area, by reinforcing our management team through both internal promotion and external recruitment. This significantly enhanced management and service capability puts us in a strong position to win new business, deliver client satisfaction and so achieve profitable growth.

Outlook

Our core permanent and temporary recruitment businesses have both continued to make progress in the first month of the second half. The new business pipeline is exceptionally strong, and we are awaiting the outcome of a number of bids and tenders which have the potential to deliver significantly improved levels of utilisation at NRG Connect. However, the achievement of an improved performance over the year as a whole is contingent on our success in this key area, and we will update the market once this becomes clearer.

Leo Finn, Chairman
Lorna Moran, Chief Executive

Consolidated income statement

	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited £'000	Year ended 30 June 2006 Audited £'000
Revenue	11,207	9,321	18,313
Cost of Sales	(7,267)	(5,570)	(11,256)
Gross profit	<hr/> 3,940	<hr/> 3,751	<hr/> 7,057
Administrative expenses	(3,056)	(2,771)	(5,362)
Operating profit	<hr/> 884	<hr/> 980	<hr/> 1,695
Finance income	118	159	259
Profit before tax	<hr/> 1,002	<hr/> 1,139	<hr/> 1,954
Income tax	(311)	(353)	(623)
Profit for the period attributable to the equity holders of the parent	<hr/> 691	<hr/> 786	<hr/> 1,331
Basic earnings per share (pence)	4.0	4.5	7.6
Diluted earnings per share (pence)	4.0	4.4	7.6

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 2006 Unaudited £'000	31 December 2005 Unaudited £'000	30 June 2006 Audited £'000
ASSETS			
Non-current assets			
Property, plant and equipment	364	498	452
Deferred tax assets	79	99	73
	<u>443</u>	<u>597</u>	<u>525</u>
Current assets			
Trade and other receivables	4,080	3,156	3,524
Cash & cash equivalents	4,731	4,848	4,888
	<u>8,811</u>	<u>8,004</u>	<u>8,412</u>
Total assets	<u>9,254</u>	<u>8,601</u>	<u>8,937</u>
LIABILITIES			
Current liabilities			
Trade & other payables	(2,362)	(1,733)	(2,039)
Income tax payable	(268)	(360)	(144)
Total current liabilities	<u>(2,630)</u>	<u>(2,093)</u>	<u>(2,183)</u>
Net assets	<u>6,624</u>	<u>6,508</u>	<u>6,754</u>
EQUITY			
Capital & reserves			
Issued capital	874	873	872
Share premium account	719	697	697
Capital redemption reserve	43	43	43
Retained earnings	4,988	4,895	5,142
Total equity attributable to equity holders of the parent	<u>6,624</u>	<u>6,508</u>	<u>6,754</u>

Consolidated statement of cash flows

	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited £'000	Year ended 30 June 2006 Audited £'000
Cash flows from operating activities			
Profit for the period	691	786	1,331
Adjusted for:			
Depreciation	107	129	249
Financial income	(118)	(159)	(259)
Equity settled share-based payments	29	23	47
(Gain)/Loss on sale of property, plant & equipment	-	-	(1)
Income tax	311	353	623
Operating Profit before changes in working capital	1,020	1,132	1,990
(Increase)/Decrease in trade and other receivables	(556)	194	(127)
Increase/(Decrease) in trade and other payables	323	(718)	(453)
Cash generated from the operations	787	608	1,410
Income tax paid	(193)	(592)	(937)
Net cash from operating activities	594	16	473
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment	-	-	17
Acquisition of property, plant & equipment	(19)	(17)	(108)
Interest received	118	159	259
Net cash inflow from investing activities	99	142	168
Cash flows from financing activities			
Proceeds from the issue of share capital	24	115	114
Own shares	-	-	-
Dividends paid	(874)	(3,136)	(3,578)
Net cash outflow from financing activities	(850)	(3,021)	(3,464)
Net decrease in cash & cash equivalents	(157)	(2,863)	(2,823)
Cash & cash equivalents at the start of the period	4,888	7,711	7,711
Cash & cash equivalents at the end of the period	4,731	4,848	4,888

Notes

1. Basis of preparation

The interim financial information has been prepared on the basis of the accounting policies adopted in the Company's financial statements for the year ended 30 June 2006.

2. Status of financial information

The interim information for the 6 months ended 31 December 2006 and 31 December 2005 has not been audited or reviewed by the auditors.

The comparative figures for the year ended 30 June 2006 are not the Company's financial statements 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 unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

3. Dividends

The following dividends were declared and paid by the Company:

	6 months ended 31.12.2006	6 months ended 31.12.2005	Year ended 30.06.2006
Dividend paid per ordinary share (pence per share)	5.0p	18.0p	20.5p
Total dividend paid (£'000s)	874	3,136	3,578

For the 6 months ended 31 December 2006 a dividend of 2.5p (6 months ended 31 December 2005 2.5p, 12 months ended 30 June 2006 7.5p) per ordinary share is proposed amounting to £437,000 (6 months ended 31 December 2005, £436,000, 12 months ended 30 June 2006 £1,308,000).

4. Share capital and reserves

Reconciliation of movement in capital and reserves attributable to equity shareholders

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 July 2006	872	697	43	5,142	6,754
Shares issued in the period	2	22	-	-	24
Total recognised income and expense	-	-	-	691	691
Purchase of own shares	-	-	-	-	-
Sale of own shares	-	-	-	-	-
Share based payments	-	-	-	29	29
Equity dividends	-	-	-	(874)	(874)
At 31 December 2006	874	719	43	4,988	6,624

The number of ordinary shares in issue at 31 December 2006 was 17,487,080 (31 December 2005: 17,454,080, 30 June 2006: 17,454,080). The weighted average number of ordinary shares outstanding during the period was 17,463,341 (31 December 2005: 17,387,880, 30 June 2006: 17,416,059).

5. Interim report

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