



12 September 2008

NORTHERN RECRUITMENT GROUP PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 30 JUNE 2008

“The results for the year are close to those we anticipated at the time of our trading statement in May with profit before tax at £1.2m from sales revenue of £19.9m. Sales revenue in 2007 was £22.3m with profit before tax of £2.0m.

Gross profit from the delivery of temporary staff dipped by 4.3 per cent, whilst gross profit from our core permanent recruitment business was at the same level as last year. As we reported at the half year our NRG Connect national response handling unit had a dearth of high volume contracts, and its gross profit for the year was down by £0.7m. Total gross profit was therefore £6.7m compared to £7.6m in 2007.”

- Revenue £19.9m (2007: £22.3m)
- Gross profit £6.7m (2007: £7.6m)
 - Temporary recruitment down by 4.3 per cent
 - Core permanent recruitment maintained
 - NRG Connect down £0.7m
- Profit before tax £1.2m (2007: £2.0m)
- Diluted earnings per share 4.7p (2007 8.1p)
- Returns to shareholders
 - Ordinary dividends 2.5 p per share, amounting to £0.4m (2007: 7.5p, amounting to £1.3m)
 - Share buybacks £0.8m (2007: nil)
 - Total return £1.2m (2007: £1.3m)
- Net cash £3.9m (2007: £5.3m)

“As with the UK economy as a whole, the recruitment sector seems unlikely to show much growth in the short term. NRG has been in business for more than 30 years and has considerable experience of weathering such conditions successfully. Our business model, with its emphasis on a high level of customer service and tight financial control, is also ideally suited to the current climate. These fundamental strengths give us confidence in the ability of our talented and highly resourceful team to take the business forward.”

- Leo Finn, Chairman

- Lorna Moran, Chief Executive

ENQUIRIES:

Northern Recruitment Group

Lorna Moran, Chief Executive

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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.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

The results for the year are close to those we anticipated at the time of our trading statement in May with profit before tax at £1.2m from sales revenue of £19.9m. Sales revenue in 2007 was £22.3m with profit before tax of £2.0m.

Gross profit from the delivery of temporary staff dipped by 4.3 per cent, whilst gross profit from our core permanent recruitment business was at the same level as last year. As we reported at the half year our NRG Connect national response handling unit had a dearth of high volume contracts, and its gross profit for the year was down by £0.7m. Total gross profit was therefore £6.7m compared to £7.6m in 2007.

Results

Revenues in the year ended 30 June 2008 were split as to £15.8m (2007: £17.4m) from temporary placements, £4.0m (2007: £4.0m) from core permanent recruitment operations and £0.1m (2007: £0.8m) from NRG Connect.

Gross profit of £6.7m (2007: £7.6m) represented a gross margin of 33.7 per cent (2007: 33.9 per cent). Administrative expenses were unchanged at £5.8m (2007: £5.8m). Payroll costs within administrative expenses remain the Company's most significant cost. In total they rose from £3.9m in 2007 to £4.1m this year.

Operating profit was £0.9m (2007: £1.8m), while financial income was £0.3m compared to £0.2m last year. In consequence, profit before tax was £1.2m (2007: £2.0 million).

Income tax for the year was £0.4m (2007: £0.6m). The effective tax rate is 31.2 per cent (2007: 30.5 per cent).

Diluted earnings per share were 4.7 pence (2007: 8.1 pence).

Finances

Cash balances at year end were £3.9m compared to £5.3m at the end of the previous year, a cash outflow of £1.4m. However, this outflow was after dividend payments of £1.3m (2007: £1.3m) and share buy backs of £0.8m (2007: nil), together totalling £2.1m (2007: £1.3m).

Capital structure and dividend

The Board's first priority for the Company's free cash flow is to finance the development of the business. Thereafter the Board seeks to strike a balance between a progressive dividend policy broadly reflecting growth in earnings per share over the medium term and share buy backs when it considers this to be in the interest of shareholders. In the second half of the year, the Company paid an interim dividend of 2.5p (2007: 2.5p) at a cost of £0.4m and bought back 1.7m shares at a cost of £0.8m (2007: nil). In view of the results for the full year the Board does not

recommend a final dividend (2007: 5p). The interim dividend and share buy backs together bring the total return to shareholders in 2008 to £1.2m compared with £1.3m from dividends in 2007.

Trading highlights

In our core permanent recruitment business **NRG Executive** showed good growth in revenues and gross profit compared to last year. **Professional Services Group** also grew during the year through **Finance**, **Scientific** and **IT**. In more difficult markets **Call Centre Solutions** and **NRG Works** were somewhat weaker than the previous year so that overall core permanent fees were £4.0m, the same as 2007. As noted above and signalled at the half year revenues from **NRG Connect** were just £0.1m (2007: £0.8m) due to a lack of high volume projects. We have repositioned this unit as **NRGRPO** (Recruitment Process Outsourcing) with a wider range of recruitment services. **TotalNRG** our consortium model, whilst proving a robust and efficient model for delivering staff throughout the UK, had low volumes compared to our early hopes.

Gross profit from temporary placements was down by 4.3 per cent or £0.1m. In contrast to our experience in the permanent sector, **Call Centre Solutions** showed good growth, broadening its client base with new accounts in the financial services sector but **Works** and **NRG City** were down against last year. The gross profit contribution from the delivery of temporary staff into the **Professional Services** sector increased compared to last year.

Our Tees Valley operation was expanded during the year with new premises, an increase in headcount, a strengthened Technical team and a recently appointed Business Manager. There is still scope for improvement in the returns from our Scottish branches but we continue to deliver good service and as a result entered into a new contract with a major existing client.

People

We have continued to strengthen the business through training, development, promotion and external recruitment. The Board is grateful for the continuing efforts of every single member of the NRG team in all parts of the Group.

Outlook

As with the UK economy as a whole, the recruitment sector seems unlikely to show much growth in the short term. NRG has been in business for more than 30 years and has considerable experience of weathering such conditions successfully. Our business model, with its emphasis on a high level of customer service and tight financial control, is also ideally suited to the current climate. These fundamental strengths give us confidence in the ability of our talented and highly resourceful team to take the business forward.

Leo Finn
Chairman

Lorna Moran
Chief Executive

Income statement for year ended 30 June 2008

	Note	2008	2007
		£000	£000
Revenue		19,904	22,336
Cost of sales		(13,204)	(14,751)
Gross profit		6,700	7,585
Administrative expenses		(5,793)	(5,787)
Operating profit		907	1,798
Financial income		264	238
Profit before tax		1,171	2,036
Income tax expense		(365)	(621)
Profit for the year attributable to equity holders of the parent		806	1,415
Basic earnings per share (pence)	2	4.7	8.1
Diluted earnings per share (pence)	2	4.7	8.1

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

Dividends

	2008	2007
Interim dividend paid (pence per share)	2.5	2.5
Final dividend proposed (pence per share)	-	5.0

Balance sheet at 30 June 2008

	Note	2008 £000	2007 £000
ASSETS			
Non-current assets			
Property, plant and equipment		332	348
Deferred tax assets		51	69
		<u>383</u>	<u>417</u>
Current assets			
Trade and other receivables		4,171	3,717
Cash and cash equivalents		3,877	5,308
		<u>8,048</u>	<u>9,025</u>
Total assets		<u>8,431</u>	<u>9,442</u>
LIABILITIES			
Current liabilities			
Trade and other payables		(2,602)	(2,310)
Income tax payable		(170)	(241)
		<u>(2,772)</u>	<u>(2,551)</u>
Total liabilities		<u>(2,772)</u>	<u>(2,551)</u>
Net assets		<u>5,659</u>	<u>6,891</u>
EQUITY			
Share capital and reserves			
Share capital	3	875	874
Share premium	3	726	719
Capital redemption reserve	3	43	43
Retained earnings	3	4,015	5,255
Total equity attributable to equity holders of the parent		<u>5,659</u>	<u>6,891</u>

Cash flow statement for year ended 30 June 2008

	2008	2007
	£000	£000
Cash flows from operating activities		
Profit for the year	806	1,415
<i>Adjusted for:</i>		
Depreciation	194	199
Financial income	(264)	(238)
Profit on sale of property, plant and equipment	(21)	(3)
Share-based payment expenses	30	18
Taxation	365	621
	<hr/>	<hr/>
Cash flows from operating activities before working capital movements	1,110	2,012
Increase in trade and other receivables	(454)	(193)
Increase in trade and other payables	293	271
	<hr/>	<hr/>
Cash inflow from the operating activities	949	2,090
Income tax paid	(426)	(529)
	<hr/>	<hr/>
Net cash inflow from operating activities	523	1,561
	<hr/>	<hr/>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	21	3
Interest received	264	238
Acquisition of property, plant and equipment	(178)	(95)
	<hr/>	<hr/>
Net cash inflow from investing activities	107	146
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from the issue of share capital	8	24
Purchase of own shares for treasury	(757)	-
Dividends paid	(1,312)	(1,311)
	<hr/>	<hr/>
Net cash outflow from financing activities	(2,061)	(1,287)
	<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents	(1,431)	420
Cash and cash equivalents at 1 July 2007	5,308	4,888
	<hr/>	<hr/>
Cash and cash equivalents at 30 June 2008	3,877	5,308

NOTES

1) The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 June 2008 or 2007. The financial information for 2007 is derived from the statutory accounts for 2007 which have been delivered to the registrar of companies. The auditors have reported on the 2007 accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237 (2) or (3) of the Companies Act 1985. The statutory accounts for 2008 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

2) Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2008 was based on profit attributable to ordinary shareholders of £806,000 (2007: £1,415,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 17,293,472 (2007: 17,470,448), calculated as follows:

Weighted average number of ordinary shares

	2008	2007
	Number	Number
Issued ordinary shares at start of year	17,487,080	17,454,080
Effect of shares issued	9,942	25,743
Effect of own shares held	(203,550)	(9,375)
Weighted average number of ordinary shares during the year	<u>17,293,472</u>	<u>17,470,448</u>

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2008 was based on profit attributable to ordinary shareholders of £806,000 (2007: £1,415,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 17,295,279 (2007: 17,550,363), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008	2007
	Number	Number
Weighted average number of ordinary shares during the year	17,293,472	17,470,448
Effect of share options on issue	1,807	79,915
Weighted average number of ordinary shares (diluted) during the year	<u>17,295,279</u>	<u>17,550,363</u>

3) Capital and reserves

Reconciliation of movement in capital and reserves

	Share Capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 July 2006	872	697	43	5,142	6,754
Total recognised income and expense	-	-	-	1,415	1,415
Shares issued in the year	2	22	-	-	24
Equity-settled share based payment transactions, net of tax	-	-	-	9	9
Dividends	-	-	-	(1,311)	(1,311)
Balance at 30 June 2007	<u>874</u>	<u>719</u>	<u>43</u>	<u>5,255</u>	<u>6,891</u>
Balance at 1 July 2007	874	719	43	5,255	6,891
Total recognised income and expense	-	-	-	806	806
Shares issued in the year	1	7	-	-	8
Purchase of own shares	-	-	-	(757)	(757)
Equity-settled share based payment transactions, net of tax	-	-	-	23	23
Dividends	-	-	-	(1,312)	(1,312)
Balance at 30 June 2008	<u>875</u>	<u>726</u>	<u>43</u>	<u>4,015</u>	<u>5,659</u>

The aggregate current and deferred tax relating to items that are charged to equity is £7,000 (2007: £9,000).

4) The preliminary announcement was approved by the Board of Directors for release on 12 September 2008.

5) The annual report will be sent to shareholders in due course and will be available from the Company's registered office at 56 Grey Street, Newcastle upon Tyne NE1 6AH

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