

# PENNA CONSULTING PLC

## FULL YEAR RESULTS

**7 June 2005**

Penna Consulting Plc (PNA) the human resources group today announces preliminary results for the year ended 31 March 2005.

### Headlines

- **New management team in place**
- **Significant cost base reductions and corporate restructuring achieved by year-end**
- **New Recruitment Advertising Agency launched**
- **Turnover £41.8m (2004: £43.0m)**
- **Earnings before interest, tax, amortisation, impairment and exceptionals, (EBITA) £12,000 (2004: £2.1m)**
- **Pre tax loss of £7.2m (2004: £3.3m)**
- **Loss per share 35.3p (2004: 19.9p)**

Commenting on the results, Stephen Rowlinson, Chairman said:

“We are reporting figures for another disappointing year but we have now implemented a change of management and of some key policies and have begun the new financial year on plan and in profit. We are looking forward to the future with confidence.”

For further information please contact:

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Gary Browning, Managing Director	020 7334 8054
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### Chairman's Review

I joined the Board in December 2004 and became Chairman on 3<sup>rd</sup> February 2005. On 21<sup>st</sup> February we announced that Suzie Mummé had stepped down as Chief Executive and that Gary Browning had been appointed Managing Director in her stead. In February and March we completed a vigorous programme to restructure the Company to ensure that it can provide both the highest quality of service to clients and a good and growing level of profitability. As a result of these measures we

began the new financial year on 1<sup>st</sup> April 2005 with costs, on an annualised basis, £3.6m lower than the same time last year.

The long established strengths of Penna are its client focus and the commitment to act at all times with the highest level of integrity. Penna people are recognised to be the leaders in each sector in which we operate and the resources we provide to support them are second to none. The Company has the ability to emerge as the leading human resource group in the UK and we are embarking on an ambitious plan to achieve this goal.

An exciting first step is our entry into Recruitment Advertising announced on 23<sup>rd</sup> May. Penna Recruitment Communications will be a full service Advertising agency and will provide clients with highly creative and cost effective approaches to recruitment through all types of media including particularly the Press and the Internet. We have taken the opportunity to appoint some of the most outstanding and successful people in the sector. We expect that the new Agency will make a significant contribution to Penna profits in the 2006/07 financial year.

## **Financial Review**

Total revenues for the year amounted to £41.8m, which was down 3% compared with 2004.

At the operating level the group reported nominal profits, before restructuring costs, goodwill amortisation and impairment, and interest costs of in total £7.2m.

The board will not recommend payment of a final dividend in respect of the financial year to 31 March 2005 (2004; total 3.6p)

At 31 March 2005 the Group had net debt (including loan notes) of £2.8m (2004: £4.1m), which includes a cash balance of £1.7m on restricted deposit to guarantee the payment of the issued loan notes. Capital expenditure of £0.7m in the year has been made on improvements in the Group's office network and in technology infrastructure.

Revenues for our career transition services have reduced by 25% in the year to £18.9m (2004: £25.3m). The company's business model of using associates for delivery has helped to mitigate the impact of this fall in direct contribution.

We announced in September 2004 that we have replaced our current international career management partnership with an alliance with Lee Hecht Harrison ("LHH"), a leading global career management services company and subsidiary of Adecco SA. This new arrangement will be a mutually beneficial partnership founded on Lee Hecht Harrison's and Penna's common aim to be the

premier international career transition providers and deliver superior performance to global clients. We have begun to see the benefits of this new alliance and are bidding jointly for a number of large international contracts, the financial benefits of which should materialise later in the year.

Our resourcing activities have seen good top line growth primarily due to a significant increase in our executive interim activities, where total gross revenues have grown to £10.3m (2004: £3.9m). Our search and selection business has reported revenues of £7.8m (2004: £7.8m), which is at similar levels to last year.

Our other consulting services, which include HR consulting, organisation development, employee communication, assessment, executive development and executive coaching have contributed revenues of £5.1m (2004: £6.3m), reflecting primarily the absence of the larger contracts that we delivered in the previous year.

Approximately 7% of the Group's revenues are delivered outside of the UK and we have permanent offices in Dublin, Paris, Stockholm, Madrid and Munich. Whilst small in scale these operations provide Penna's clients with the international reach they need, especially in resourcing and developing local talent.

In accordance with FRS 11 we have looked carefully at the carrying value of the goodwill attributed to acquisitions made since 1998. We have adjusted the valuation of these businesses in line with current market conditions and have recognised a goodwill impairment charge of £0.5m. In addition we incurred compensation and redundancy costs of £1.5m, and established a provision of £2.9m relating to the costs of reducing the number of permanent properties from which we operate. Other one-off costs relating to the restructuring project, including asset write downs, total £0.9m.

## **Organisation and outlook**

Under Gary Browning's leadership the new management team is making considerable progress in marketing the Group's services and controlling costs. Our services are grouped into six areas covering the entire employment cycle.

- Recruitment communications
- Resourcing (executive search and selection)
- Executive interim
- Leadership services (executive coaching and development)
- HR Consulting
- Career Transition (outplacement and career management)

These service lines have been given greater accountability for client service and revenues than in the recent past, we will however ensure that Penna's ability to marshal a whole range of services from across the firm to meet clients' needs will be maintained and refined. The management team is focused on improving operating profits and margins and increasing cost flexibility, particularly in the area of people and property. The group now operates from twelve regional centres capable of providing clients and staff with all the resources they need to deliver all our services.

Suzie Mummé and Allen Thomas have indicated that they will stand down from the Board at the Annual General Meeting in September. They have served on the Board for 9 and 11 years respectively and we thank them for their considerable contributions to the Company.

I am very pleased to confirm that preliminary indications for April and May, the first two months of the new financial year, are consistent with our plans and we are looking forward to the next phase of the Company's development with confidence.

**Stephen Rowlinson**  
**Chairman**

**GROUP PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2005**  
**(unaudited)**

	Note	Results before Amortisation of Goodwill & Exceptional items 2005 £000's	Amortisation of Goodwill & Exceptional items 2005 £000's	2005 £000's	2004 £000's
<b>Turnover</b>	3	<b>41,831</b>	-	<b>41,831</b>	42,960
<b>Operating costs</b>					
Amortisation and impairment of goodwill		-	(1,565)	(1,565)	(3,883)
Other operating costs		(41,866)	(4,859)	(46,725)	(42,087)
<b>Total operating costs</b>		<b>(41,866)</b>	<b>(6,424)</b>	<b>(48,290)</b>	(45,970)
<b>Operating loss</b>		<b>(35)</b>	<b>(6,424)</b>	<b>(6,459)</b>	(3,010)
Share of operating profit/(loss) of associate		47	(68)	(21)	(15)
<b>Group operating profit/(loss)</b>		<b>12</b>	<b>(6,492)</b>	<b>(6,480)</b>	(3,025)
Loss on disposal of fixed assets		-	(399)	(399)	(90)
Net interest payable		(320)	-	(320)	(226)
<b>Loss on ordinary activities before taxation</b>		<b>(308)</b>	<b>(6,891)</b>	<b>(7,199)</b>	(3,341)
Taxation on loss on ordinary activities				668	(257)
<b>Loss on ordinary activities after taxation</b>				<b>(6,531)</b>	(3,598)
Equity dividends paid and proposed	4			-	(654)
<b>Retained loss for the year</b>				<b>(6,531)</b>	(4,252)
<b>Loss per share</b>	5				
Basic				(35.3p)	(19.9)p
Diluted				(35.3p)	(19.9)p

**Consolidated statement of total recognised gains and losses**  
**For the year ended 31 March 2005**  
**(unaudited)**

	2005 £000's	2004 £000's
Loss for the financial year	(6,531)	(3,598)
Gain on foreign currency translation	37	19
<b>Total recognised gains and losses relating to the year</b>	<b>(6,494)</b>	<b>(3,579)</b>

**GROUP BALANCE SHEET**  
**31 March 2005 (unaudited)**

	Note	2005 £000's	2004 £000's
<b>Fixed assets</b>			
Intangible assets – goodwill		<b>13,012</b>	14,398
Tangible assets		<b>1,584</b>	2,372
Investment in Associate		<b>2,453</b>	2,486
		<b>17,049</b>	19,256
<b>Current assets</b>			
Debtors		<b>12,935</b>	10,919
Cash at bank & in hand	6	<b>1,680</b>	3,891
		<b>14,615</b>	14,810
<b>Creditors:</b> amounts falling due within one year		<b>(15,048)</b>	(9,947)
<b>Net current (liabilities)/assets</b>		<b>(433)</b>	4,863
<b>Total assets less current liabilities</b>			
		<b>16,616</b>	24,119
<b>Creditors:</b> amounts falling due after more than one year		<b>(3,898)</b>	(7,071)
<b>Provisions for liabilities &amp; charges</b>	7	<b>(1,695)</b>	(782)
<b>Net assets</b>		<b>11,023</b>	16,266
<b>Capital &amp; reserves</b>			
Called up share capital		<b>961</b>	914
Share premium account		<b>11,701</b>	10,497
Merger reserve		<b>10,170</b>	10,170
ESOP		<b>(397)</b>	(397)
Profit and loss account		<b>(11,412)</b>	(4,918)
Shareholders' funds			
<b>Equity interests</b>		<b>11,023</b>	16,266

**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 March 2005 (unaudited)**

	2005 £000's	2004 £000's
<b>Operating loss</b>	<b>(6,459)</b>	<b>(3,010)</b>
Depreciation charges	779	957
Amortisation & impairment of goodwill	1,565	3,883
(Increase)/decrease in debtors	<b>(1,171)</b>	2,337
Increase/(decrease) in creditors	<b>6,175</b>	<b>(5,308)</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>889</b>	<b>(1,141)</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	39	11
Interest paid	<b>(51)</b>	<b>(107)</b>
Finance lease		
Other	<b>(296)</b>	<b>-</b>
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(308)</b>	<b>(96)</b>
<b>Taxation paid</b>	<b>(177)</b>	<b>(430)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(680)</b>	<b>(1,148)</b>
Sale of tangible fixed assets	290	44
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(390)</b>	<b>(1,104)</b>
<b>Acquisitions &amp; disposals</b>		
Payment of deferred acquisition consideration	<b>(300)</b>	<b>(51)</b>
<b>Net cash outflow from acquisitions &amp; disposals</b>	<b>(300)</b>	<b>(51)</b>
<b>Equity dividends paid</b>	<b>(384)</b>	<b>(654)</b>
<b>Cash outflow before management of liquid resources and financing</b>	<b>(670)</b>	<b>(3,476)</b>
<b>Management of liquid resources</b>		
Cash withdrawn from /(placed on) short-term deposit	200	(200)
Cash received from restricted deposit	-	540
Cash placed on restricted deposit	<b>(1,195)</b>	<b>(333)</b>
<b>Net cash (outflow)/inflow from management of liquid resources</b>	<b>(1,665)</b>	<b>7</b>
<b>Financing</b>		
Issue of ordinary share capital	1,221	-
Repayments of loan notes	<b>(68)</b>	<b>(540)</b>
Net proceeds from finance leases	342	-
(Repayment of loan)/New borrowings	<b>(2,500)</b>	<b>2,500</b>
<b>Net cash (outflow)/inflow from financing</b>	<b>(1,005)</b>	<b>1,960</b>
<b>Decrease in cash in the year</b>	<b>(2,670)</b>	<b>(1,509)</b>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**For the year ended 31 March 2005 (unaudited)**

	2005 £000's	2004 £000's
Loss for the financial year	<b>(6,531)</b>	(3,598)
Dividends	-	(654)
Shares issued during the year	<b>1,251</b>	276
Gain on foreign currency translation	<b>37</b>	19
Net reduction to shareholders' funds	<b>(5,243)</b>	(3,957)
Opening shareholder's funds	<b>16,266</b>	20,223
Closing shareholder's funds	<b>11,023</b>	16,266

**NOTES FORMING PART OF THE ACCOUNTS**  
**For the year ended 31 March 2005**

**1. Accounting Policies**

There have been no changes to the accounting policies set out in the 2004 Report and Accounts.

**2. Accounts**

The financial information set out in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2004, on which the auditors gave an unqualified audit report, have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 March 2005 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 following the Company's Annual General Meeting. The Report and Accounts for 2005 will be posted to shareholders in July and copies will be available from our Registered Office at 15 Welbeck Street, London W1G 9XT.

**3. Segmental Analysis**

The Group's turnover was attributable to the following activities:

	<b>2005 Unaudited £000's</b>	2004 Audited £000's
<b>Career Transition</b>	<b>18,866</b>	25,297
<b>Resourcing</b>	<b>7,758</b>	7,777
<b>Interim</b>	<b>10,288</b>	3,873
<b>Leadership Services</b>	<b>2,413</b>	2,148
<b>HR Consulting</b>	<b>2,698</b>	4,190
<b>Intercompany sales</b>	<b>(192)</b>	(325)
<b>Total</b>	<b>41,831</b>	42,960

Included in turnover are recharged expenses of £9,753,000 (2004: £5,346,000) on which no profit is made.

The Group's turnover is derived from the following geographical segments:

	<b>Turnover £000's</b>	<b>Operating Profit/(loss) £000's</b>
<b>2005 (Unaudited)</b>		
<b>UK</b>	<b>38,984</b>	<b>65</b>
<b>Rest of World</b>	<b>2,847</b>	<b>(53)</b>
<b>Goodwill and exceptional items</b>	<b>-</b>	<b>(6,492)</b>
	<b>41,831</b>	<b>(6,480)</b>
<b>2004 (Audited)</b>		
UK	40,067	2,456
Rest of World	2,893	(303)
Goodwill and exceptional items	-	(5,178)
	42,960	(3,025)

**4. Dividends**

No dividend is proposed for the year (2004: 3.6p) per ordinary share.

## 5. Loss per share

Loss per share has been calculated by dividing the loss attributable to shareholders for the financial year by the weighted average number of ordinary shares in issue during the year:

	2005 Number	2004 Number
Weighted average number of shares in issue per basic earnings	18,517,363	18,084,458
Diluted effect of: Share options	361,752	227,140
Weighted average number of shares in issue per diluted earnings	18,879,115	18,311,598

  

	2005 £000's	Basic EPS (pence)	2005 £000's	Diluted EPS (pence)
Loss attributable to shareholders	(6,531)	(35.3)	(6,531)	(35.3)*

  

	2004 £000's	Basic EPS (pence)	2004 £000's	Diluted EPS (pence)
Loss attributable to shareholders	(3,598)	(19.9)	(3,598)	(19.9)*

\* FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss-making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, diluted EPS equals basic EPS.

## 6. Cash at bank and in hand

Included within cash at bank and in hand cash is £1.7m (2004: £3.4m) held on a restricted deposit account to guarantee the payment of certain loan notes issued as consideration for acquisitions made in prior years.

## 7. Provisions for Liabilities and Charges

This item, amounting to £1,695,000 (2004: £782,000) reflects a provision of £1,324,000 (2004: £471,000) for the dilapidations liability arising from the Group's leased property portfolio and the estimated deferred consideration due under the acquisition of The James Black Partnership of £371,000.