

PENNA CONSULTING PLC ANNOUNCES FULL YEAR RESULTS

6 June 2006

Penna Consulting Plc (PNA) the Human Capital Management Consultancy group today announces its unaudited preliminary results for the year ended 31 March 2006.

Headlines

- **Business returned to profit**
- **Turnover up 7% to £44.6m (2005: £41.8m)**
- **Rapid disposal of redundant property leases saves £1.0m of future costs**
- **Penna Recruitment Communications successfully established**
- **Profit before tax £2.6m (2005: loss £6.4m)**
- **Earnings per share 11.2p (2005: loss 30.7p)**

Commenting on the results, Stephen Rowlinson, Chairman said:

"I am pleased to report that the Company has returned to profit, maintaining revenues and improving margins whilst significantly reducing costs through the implementation of a new operating structure".

For further information please contact:

Stephen Rowlinson, Chairman	0771 00 23699
Gary Browning, Chief Executive	020 7648 2448
David Firth, Finance Director	020 7648 2423

These unaudited preliminary results are the Group's first set of results prepared under the International Financial Reporting Standards (IFRS). Whilst the application of IFRS has no significant impact on the reported results for the Group, the results for the comparative period have been restated in accordance with IFRS and have not been audited.

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Chairman's Review

I am pleased to report on a satisfactory year, during which we returned the business to profitability, whilst restructuring the operations significantly.

Financial Review

Turnover grew from £41.8m to £44.6m with underlying net revenues (i.e. revenues net of pass through costs) marginally increased by 2% from £32.1m to £32.8m. Net operating costs (i.e. operating costs net of pass through costs) reduced by 11%, from £34.7m to £31.0m. We are pleased to report a profit of £2.6m.

During the year we restructured the cost base of the business by reducing the number of fixed offices, closing 11 in total. I am pleased to report that the disposal programme for closed offices has progressed quicker than plan, with the lease of 8 offices now terminated, for which we have no future liability. As result we have been able to release £1.0m of excess property provisions.

I am also pleased with the progress of our new Recruitment Communications business, started during the year. The net costs of this new venture amounted to £0.8m and the reported profit before tax of £2.6m is after absorbing these costs.

Turnover by service line

	2006	2005
	£'000	£'000
Career Transition	19,362	18,866
Resourcing	8,149	7,758
Executive Interim	11,480	10,288
Recruitment	888	-
Communications		
Leadership Services	2,396	2,413
HR Consulting	2,517	2,698
Intercompany sales	(190)	(192)
Total Turnover	44,602	41,831
Total net revenues	32,748	32,078

Reorganisation of the Group into six profit centres is now complete. We have streamlined and strengthened the management in each business unit to ensure that future success is achieved.

Career Transition operates in a highly competitive, price driven marketplace. I am satisfied with our performance this year where we have protected core clients, maintaining revenues at last year's levels and increasing margins. Our strategy of maintaining service levels, has this year seen a number of clients return to Penna having experienced lower service level alternatives from competitors.

Turnover in Resourcing increased by 5% to £8.1m. The unit sources and places senior and middle managerial professionals and also undertakes volume projects for clients requiring larger numbers of staff.

Our Executive Interim business's turnover has grown by 12%, (21% in net revenue terms) in the year and continues to pursue a sector-focused strategy, placing senior level executives on assignments across a broad range of functional disciplines.

Our Recruitment Communications division supports clients in their strategy to attract new employees and we have to date secured four major long-term contracts and a number of short-term project assignments. I anticipate significant growth in this area of our business over the next two years.


Our Leadership Services business incorporates Executive Coaching and Leadership Development. We are currently seeing significant market interest in these services.

HR Consulting maintained its market share and has recently won several large, longer term assignments from blue chip clients looking for support on their people issues throughout major change initiatives.

We have disposed of our 30% interest in Knightsbridge Human Capital Management Inc, our Canadian investment, for £3.0m, showing a profit of £0.3m on our original investment. £2.25m of the consideration was received by the year-end, and £0.75m was received in May 2006.

We are looking forward to continuing growth in each of our businesses. In particular we expect significant development of our Recruitment Communications and Interim Management divisions and this will require further working capital. The Directors are currently considering the optimum way to finance the expansion of these businesses and the Group as a whole as set out in Note 1.

We have completed an important year of change and development. The operating management of the Company is to be congratulated on increasing underlying net revenues by £0.7m at the same time as reducing costs by £3.7m. This was the target they were set for the year and it has been achieved with great professionalism.

A handwritten signature in black ink, appearing to read 'S. Rowlinson', with a long horizontal line extending to the right.

Stephen Rowlinson
Chairman
6 June 2006

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**Consolidated income statement
for the year ended 31 March 2006 (unaudited)**

	Notes	Year Ended 31 March 2006	Year Ended 31 March 2005
		£'000	£'000
Continuing operations			
Turnover		44,602	41,831
Operating costs		(43,177)	(44,484)
Goodwill impairment		-	(508)
Decrease/(increase) in surplus property provision		960	(2,925)
Operating profit/(loss)		2,385	(6,086)
Share of profit from associate		183	47
Finance costs		(288)	(320)
Profit on disposal of fixed asset investment		308	-
Profit/(loss) before tax		2,588	(6,359)
Tax	3	(442)	668
Profit/(loss) for the year		2,146	(5,691)
Attributable to:			
Equity holders of the parent		2,146	(5,691)
Earnings/(loss) per share:	4		
- basic		11.2p	(30.7)p
- diluted		11.0p	(30.7)p

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Consolidated balance sheet
at 31 March 2006 (unaudited)

	Note	31 March 2006 £'000	31 March 2005 £'000
Non-current assets			
Tangibles - Property, plant and equipment		2,270	1,507
Other intangible assets – software		75	77
Goodwill		14,036	14,070
Investments	6	-	2,521
		16,381	18,175
Current assets			
Trade debtors		11,173	10,513
Other prepayments		2,432	1,518
Corporation tax		35	904
Cash and cash equivalents	7b	2,117	1,680
		15,757	14,615
Total assets		32,138	32,790
Current liabilities			
Trade creditors		2,824	1,842
Bank overdraft		4,386	2,400
Loan notes		2,462	2,467
Obligations under finance lease		84	75
Provision for liabilities and charges		210	671
Other creditors and accruals		7,691	10,908
		17,657	18,363
Non-current liabilities			
Obligations under finance leases		183	267
Provision for liabilities and charges		263	1,024
Other creditors and accruals		182	1,164
		628	2,455
Total liabilities		18,285	20,818
Net assets		13,853	11,972
Capital and reserves			
Called up share capital		978	961
Share premium account		11,899	11,701
Merger reserve		10,170	10,170
Employee Share Option Plan reserve		(397)	(397)
Share option reserve		272	212
Foreign currency translation reserve		42	40
Retained loss		(9,111)	(10,715)
Total equity		13,853	11,972

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**Consolidated statement of changes in equity
at 31 March 2006 (unaudited)**

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 1 April 2004	914	10,497	10,170	(397)	84	-	(4,618)	16,650
Share issue	47	1,204	-	-	-	-	-	1,251
Currency translation differences	-	-	-	-	-	40	(22)	18
Loss	-	-	-	-	-	-	(5,691)	(5,691)
Share option charge	-	-	-	-	128	-	-	128
Equity dividends	-	-	-	-	-	-	(384)	(384)
At 31 March 2005	961	11,701	10,170	(397)	212	40	(10,715)	11,972
Impact of adoption of IAS 32 and IAS 39 on 1 April 2005	-	-	-	-	-	-	(542)	(542)
Share issue	17	198	-	-	-	-	-	215
Currency translation differences	-	-	-	-	-	2	-	2
Profit	-	-	-	-	-	-	2,146	2,146
Share option charge	-	-	-	-	60	-	-	60
At 31 March 2006	978	11,899	10,170	(397)	272	42	(9,111)	13,853

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**Consolidated group cash flow statement
for the year ended 31 March 2006 (unaudited)**

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Cash flows from operating activities		
Cash (used)/generated by operations	7a (2,479)	889
Tax refunded/(paid)	428	(177)
Interest paid – bank overdraft	(241)	(257)
Net cash (used)/generated by operating activities	(2,292)	455
Cash flows from investing activities		
Net purchase of property, plant and equipment	(1,265)	(680)
Sale of tangible fixed assets	-	290
Sale of investment	2,250	-
Payment of deferred consideration	-	(300)
Net cash generated by/(used) in investing activities	985	(690)
Cash flows from financing activities		
Interest paid – finance leases	(35)	(51)
Net proceeds from finance leases	-	342
Repayment of finance leases	(75)	-
Repayment of loan notes	(342)	(3,004)
Issue of ordinary share capital	210	1,221
Repayment of loan	-	(2,500)
Dividends paid	-	(384)
Net cash used in financing activities	(242)	(4,376)
Net decrease in cash and cash equivalents	(1,549)	(4,611)
Cash and cash equivalents at start of period	(720)	3,891
Cash and cash equivalents at end of period	(2,269)	(720)

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Notes to the preliminary announcement for the year ended 31 March 2006 (unaudited)

1. Basis of preparation

The Directors are currently finalising arrangements with the Group's bankers to convert the current £4.25m overdraft facility, which expires on 30 June 2006, into a term loan and a secured invoice discounting facility to establish appropriate medium term funding arrangements. The secured invoice discounting facility is expected to be linked to the growth of the Recruitment Communications and Interim Management businesses. The Directors are currently considering the optimum way to finance the Group and the expansion of the Recruitment Communications and Interim Management businesses and expect to have concluded these arrangements by the time the annual accounts are signed.

As part of their considerations of going concern, the Directors have prepared working capital projections for the period to 31 December 2007. Based on the conditions existing at the date of this preliminary announcement the Directors recognise that in the absence of finalised funding arrangements, the audit opinion in respect of the year ended 31 March 2006 may contain an emphasis of matter paragraph in respect of a material uncertainty around the Company's ability to continue as a going concern.

However the Directors are confident that the required funding will be obtained and that no material uncertainty will exist at the date the accounts are signed.

2. Accounting policies

The unaudited preliminary consolidated financial statements are for the year ended 31 March 2006. They have been prepared under the historical cost convention using accounting policies that are consistent with current International Financial Reporting Standards (IFRS). IFRS 1, "First-time Adoption of International Financial Reporting Standards", applies to these financial statements for the first time. The financial statements are unaudited.

The Group's consolidated financial statements were prepared in accordance with the United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 31 March 2005. In preparing the 2006 financial statements, the directors have adopted IFRS and have restated comparative information accordingly. The adjustments to the Group's equity and its income are shown in Note 8.

The Group has taken advantage of the exemption available under IFRS 1 where cumulative translation differences for all foreign operations are deemed to be zero at 1 April 2004, the date of transition. The Group has also elected to apply IFRS 2, "Share-based Payment" to all relevant share based payment transactions granted after 7 November 2002 that had not fully vested at 1 January 2005. Under IFRS 1, the Group has also taken advantage of the exemption to not apply IFRS 3 to business combinations occurring before the date of transition and to not restate comparative information for IAS 32 and IAS 39.

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Notes to the preliminary announcement (continued) for the year ended 31 March 2006 (unaudited)

The principal differences in the Group's accounting policies between IFRS and UK GAAP as they impact the Group for the year ended 31 March 2006 are as follows:

- IAS 1 "Presentation of Financial statements" and IAS 7 "Cash Flow Statements" have affected the overall presentation and certain disclosures;
- IFRS 2 "Share-based Payment" requires that the fair value of employee options at grant date be expensed and recognised over the vesting period;
- IAS 10 "Events After the Balance Sheet Date" has the effect of prohibiting the recognition of the final dividend until shareholder approval has been received. Previously a liability was recognised at the year end;
- IAS 19 "Employee Benefits" has the effect of recognising a liability for unused accumulated employee holiday entitlement at the balance sheet date. Previously no accrual was made;
- IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" have resulted in a change in the accounting policy for goodwill. In accordance with the provisions of IFRS 3, the Group ceased amortisation of goodwill from 1 April 2004. From 1 April 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and
- IAS 32 Financial Instruments: "Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" has led to an increase in financial liabilities on the balance sheet.

The adjustments to the Group's equity and income as previously reported are set out in Note 8.

3. Taxation

Taxation has been provided for at 30% (2005: 30%), for the UK and appropriate rates for overseas earnings.

4. Earnings/(loss) per share

The calculation of basic and diluted earnings per share are based on the following amounts:

	Year ended 31 March 2006	Year ended 31 March 2005
Earnings		
Profit/(loss) from continuing operations (£'000)	2,146	(5,691)
Profit/(loss) for the year (£'000)	2,146	(5,691)
Number of shares		
Weighted average number of Shares	19,198,919	18,517,363
Dilution effect of share option Schemes	346,464	361,752
Diluted weighted average number Of Shares	19,545,383	18,879,115
Earnings/(loss) per share:		
Basic	11.2p	(30.7)p
Diluted	11.0p	(30.7)p

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**Notes to the preliminary announcement (continued)
for the year ended 31 March 2006 (unaudited)**

5. Dividends

No dividend was proposed (2005: nil) for the year ended 31 March 2006.

6. Investments

The Group's investment represented a 30% holding in the ordinary share capital of Knightsbridge Human Capital Inc.

During the year, the Group's investment in the associate was disposed of for a consideration of £3.0m on 5 January 2006.

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**Notes to the preliminary announcement (continued)
for the year ended 31 March 2006 (unaudited)**

7a. Reconciliation of operating profit/(loss) to cash (used)/generated by operating activities	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Operating profit/(loss)	2,385	(6,086)
Adjustments for:		
Depreciation	504	779
Loss on disposal of fixed assets	-	399
Goodwill impairment	-	508
Share option expense	60	128
Changes in working capital:		
Increase in trade and other receivables	(826)	(1,171)
(Decrease)/increase in trade and other payables	(3,642)	3,407
Property provision (reversed)/charged	(960)	2,925
Cash (used)/generated by operations	(2,479)	889

7b. Cash and cash equivalents	At 31 March 2006 £'000	At 31 March 2005 £'000
Cash and cash equivalents are made up as follows:		
Bank overdraft	(4,386)	(2,400)
Cash on restricted deposit	2,117	1,680
Cash and cash equivalents	(2,269)	(720)

8. IFRS restatement and prior period adjustments

In preparing the 2006 financial statements, the directors have adopted IFRS for the first time and have restated comparative information accordingly. The transition to IFRS is accounted for in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" with 1 April 2004 as the date of transition. The changes in accounting policies are described below together with reconciliations of the restated shareholders' equity and profit to that previously reported.

The transition to IFRS resulted in the following changes in accounting policies:

- Cumulative translation differences are deemed to be zero at the date of transition, per IFRS 1.

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Notes to the preliminary announcement (continued) for the year ended 31 March 2006 (unaudited)

8. IFRS restatement and prior period adjustments (continued)

- Share option costs were previously based on the intrinsic value of the option at the date of grant. These costs are now accounted for in accordance with IFRS 2 "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to grants after 7 November 2002, which had not vested by 1 January 2005. The value of share-based payments is measured at the date of grant. The value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The value of the options is measured using the Black-Scholes model.
- Dividends to shareholders authorised after the balance sheet date are not recognised as a liability at the balance sheet date.
- Unused accumulated employee holiday entitlements at the balance sheet date are now recognised as a liability.
- In accordance with IFRS 1, the goodwill that arose prior to 1 April 2004 was amortised until that date. From 1 April 2004 the goodwill was no longer amortised on an annual basis, but rather subjected to an impairment test on that date and all subsequent reporting periods. Accordingly, the goodwill that was reported as amortised in the year ended 31 March 2005 under UK GAAP has therefore been reversed. At 31 March 2006 the Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.
- Capitalised computer software previously included within tangible fixed assets has now been reclassified as intangible fixed assets. Under IAS 38, only computer software integral to the hardware operating system should be included as plant and equipment. All other computer software should be recorded as an intangible asset.
- Derecognition of financial liabilities - In accordance with IAS 39, a financial liability of the Group is only released to the income statement when the underlying legal obligation is extinguished.

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**Notes to the preliminary announcement (continued)
for the year ended 31 March 2006 (unaudited)**

Reconciliations of equity

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 1 April 2004								
Under UK GAAP	914	10,497	10,170	(397)	-	-	(4,918)	16,266
Share option charge	-	-	-	-	84	-	(84)	-
Dividend not recognised as a liability until paid	-	-	-	-	-	-	384	384
At 1 April 2004 (under IFRS)	914	10,497	10,170	(397)	84	-	(4,618)	16,650

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 31 March 2005								
Under UK GAAP	961	11,701	10,170	(397)	-	-	(11,412)	11,023
Share option charge	-	-	-	-	212	-	(212)	-
Goodwill amortisation written back	-	-	-	-	-	-	1,125	1,125
Currency translation	-	-	-	-	-	40	(40)	-
Employee benefit accrual	-	-	-	-	-	-	(176)	(176)
At 31 March 2005 (under IFRS)	961	11,701	10,170	(397)	212	40	(10,715)	11,972

Reconciliation of previously stated loss under UK GAAP

Year ended 31 March 2005

	£'000
Loss after tax under UK GAAP	(6,531)
Currency translation	19
Goodwill amortisation written back	1,125
Accrual for holiday pay	(176)
<u>Share option charges</u>	<u>(128)</u>
Loss for the period after tax under IFRS	(5,691)

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**Notes to the preliminary announcement (continued)
for the year ended 31 March 2006 (unaudited)**

9. Nature of the financial information

The Board of Directors approved the Preliminary Results on 6 June 2006.

The financial information set out in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information in respect of the year to 31 March 2006 is unaudited. Statutory accounts for the year ended 31 March 2005, prepared under UK GAAP, on which the auditor's report was unqualified and did not contain a statement under s237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies. Copies can be obtained from our Registered Office at 3rd Floor, St Mary's Court, 20 St Mary at Hill, London EC3R 8EE.

The financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in July 2006.