Lombard Risk

Excellence in financial software and managed services

Lombard Risk Management plc

Interim Report & Accounts

Half Year Ended 30 September 2004

Highlights

For the six months ended 30 September 2004

- Revenues for the half year £ 2.29 million (2003 : £ 2.33 million)
- Loss before tax £ 0.38 million (2003 : £ 0.57 million)
- Initial Public Offering completed on London AIM market (London Stock Exchange ticker LRM)

Chairman's Statement

For the six months ended 30 September 2004

Summary

The successful IPO of Lombard Risk Management plc on the London AIM market in September 2004 made this a particularly significant period for the Group.

The pre-tax loss narrowed appreciably as a result of tight cost controls, with revenues being comparable to the previous year.

Significant progress was made in two key areas. A development partnership was established to expand the Firmament Credit software product to handle collateralised debt obligations (CDOs). In addition, the Independent Valuation Services initiative was developed using a combination of our software and our data to provide clients with a derivative position valuation service.

Several strategic appointments were made during the period, including a new Director of Sales, which will assist in the execution of the strategic plan for the Group.

Trading

The Group's revenues were £2.29 million for the half year against £2.33 million in the previous year and £4.53 million in the full year to March 2004. The pre-tax loss narrowed to £0.38 million against £0.57 million in the previous year and £ 1.21 million for the full year to March 2004. Before exceptional items, the pre-tax operating loss narrowed to £0.19 million. In calculating profitability, R&D was again fully expensed as incurred, as in previous years.

The Oberon software product continued to be profitable, as was the ValuSpread managed service. Firmament, the company's new flagship software product, has initial functionality for credit trading, equity trading and collateral management and will soon also have fixed income capability. Firmament shows promising signs of creating a major recurring revenue stream for the Group.

Software Products

Oberon, the Group's core software product, recorded its 15th year of profitability, maintaining its position as a cashflow provider for LRM's other product initiatives. By the beginning of the period the entire customer base had been upgraded to Oberon 5 allowing the support function to be streamlined. In addition, extra functionality was added to Oberon for emerging market bonds and derivatives, increasing the potential new customer base.

Firmament has made further progress from its credit trading base, with an equity module now installed at its first customer site. Initially handling credit default swaps and default baskets, Firmament Credit Trading is now being extended to handle CDOs and other correlation products, and is building up a useful sales pipeline. Firmament Collateral is also attracting a lot of customer interest.

Managed Services and Data

The Valuation Services division continued to build its client base for the ValuSpread managed service for credit derivative price verification. This showed a significant increase in the volume of data being managed, and has moved from being a weekly to a daily service. Even the largest banks have difficulty in verifying their traders' prices, and this service meets many of their regulatory, auditing and line management needs. ValuSpread's client list includes most of the largest trading firms in the credit derivatives market, including JP Morgan Chase, Deutsche Bank, Goldman Sachs, Citigroup, Lehman Brothers, Morgan Stanley and BNP Paribas.

Sales of the resulting data to third parties have continued to grow rapidly, with a 30% increase in the number of credits being made available for public use. Finally, we made headway with services to provide independent third party valuations by combining our credit derivative data and our Firmament software. We believe this has considerable commercial potential for the years ahead.

Investments

The company has a stake of over 3% (5.6 million shares) in its former subsidiary IDOX plc, which is also quoted on AIM. Shares in IDOX have traded in the range 9p – 13p in the last twelve months. The board sees little if any strategic value in retaining this holding, and consequently the board will retain or dispose of the holding based on investment considerations alone.

Financing

The Group raised £1.25 million in the IPO, or £0.99 million after costs of the issue, at a price of 8p per share.

In late November 2004, the Group raised a further £1.1 million at 9p per share from Putnam Lovell NBF, through its parent National Bank Financial Inc. (NBF), a subsidiary of National Bank of Canada. Putnam Lovell is an investment bank that has made other strategic investments in firms that sell to hedge funds or to investors in hedge funds, and the board believes that the association with Putnam Lovell and its network of contacts will bring significant additional benefits to the Group, particularly as it seeks to expand its North American customer base.

Prospects and Conclusion

The directors are encouraged by the build-up in sales pipeline since the sales team was strengthened in the summer and by the increasing interest in our new product offerings. We are cautiously optimistic that the second half of the current financial year will show appreciable revenue growth over the first half and over the comparable period in the previous financial year. Inevitably the investments made as a result of the IPO have also increased the cost base, but our objective is to return to regular monthly profitability within the next 12 months.

Our employees worked very hard over the past year in a period where costs had been cut, and their efforts in helping us achieve our IPO are much appreciated. It was also gratifying that around 40% of our employees decided to invest personally in our shares at the IPO. All employees are being rewarded with share options at strikes of 9p–11p. Our thanks are also due to our customers and suppliers, our advisors and our investors.

It is exciting now to be in position to take the company to the next stage in its development. The growth of the hedge fund market and the credit derivative market, and the need for more infrastructure as both these markets become more mature, should all work in our favour at a time that we have more funds available to invest.

J M Wisbey
Chairman & CEO

29 November 2004
The Interim Report was approved by the Board of Directors on 29 November 2004

Independent Review Report to Lombard Risk Management plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2004 which comprises the profit and loss account, balance sheet and cash flow statement and the related notes 1 to 8. We have read the other information contained in the interim report which comprises only the Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the company's members, as a body, in accordance with guidance contained in Auditing Practices Board Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the company's members those matters we are required to state to it in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON

29 November 2004

Consolidated Profit and Loss Account

For the six months ended 30 September 2004

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Turnover	2,290,246	2,330,586	4,525,652
External charges	(103,093)	(97,782)	(241,170)
	2,187,153	2,232,804	4,284,482
Staff costs	1,842,270	1,865,608	3,636,148
Other operating charges	531,881	643,201	1,321,319
Exceptional costs	192,480	192,488	384,975
	(2,566,631)	(2,701,297)	(5,342,442)
Operating Loss			
Before exceptional items	(186,998)	(276,005)	(672,985)
Exceptional costs	(192,480)	(192,488)	(384,975)
Total operating loss	(379,478)	(468,493)	(1,057,960)
Exceptional items			
Profit on disposal of current asset investment	49,024	2,340	2,340
Interest receivable	774	1,028	4,892
Interest payable	(55,279)	(104,743)	(157,139)
Loss on ordinary activities before taxation	(384,959)	(569,868)	(1,207,867)
Tax on loss on ordinary activities	–	110,000	460,008
Non equity appropriation	–	(18,742)	(21,488)
Loss for the year transferred from reserves	(384,959)	(478,610)	(769,347)
Earnings/(loss) per share			
Basic and diluted (pence)	(0.5)	(0.6)	(1.0)

Consolidated Balance Sheet

At 30 September 2004

	At 30 Sep-04 (unaudited) £	At 30 Sep-03 (unaudited) £	At 31 Mar-04 (audited) £
Fixed assets			
Tangible assets	172,810	84,516	93,496
	172,810	84,516	93,496
Current assets			
Debtors due within one year	1,302,359	765,825	915,087
Debtors due after one year	–	17,142	–
Current asset investment	571,250	599,250	599,250
Cash at bank and in hand	877,520	120,415	72,887
	2,751,129	1,502,632	1,587,224
Creditors: Amounts falling due within one year	(3,790,719)	(2,644,325)	(3,010,323)
Net current liabilities	(1,039,590)	(1,141,693)	(1,423,099)
Creditors: Amounts falling due after one year	(212,726)	(400,198)	(355,937)
	(1,079,506)	(1,457,375)	(1,685,540)
Capital and reserves			
Called up share capital	948,102	865,881	867,881
Share premium	1,398,392	448,610	486,610
Revaluation reserve	170,957	395,728	408,151
Other reserves	118,181	118,109	119,193
Profit and loss account	(3,715,138)	(3,285,703)	(3,567,375)
Shareholders deficit	(1,079,506)	(1,457,375)	(1,685,540)
Equity shareholders' funds	(1,079,506)	(2,186,116)	(2,417,027)
Non equity shareholders' funds	–	728,741	731,487
Shareholders deficit	(1,079,506)	(1,457,375)	(1,685,540)

Consolidated Cash Flow Statement

For the six months ended 30 September 2004

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Net cash outflow from operating activities	(680,234)	(46,931)	(410,861)
Returns on investments and servicing of finance			
Interest received	774	1,028	4,892
Interest paid	(54,728)	(104,193)	(156,038)
Hire purchase interest	(551)	(551)	(1,101)
Net cash outflow from returns on investments and servicing of finance	(54,505)	(103,716)	(152,247)
Taxation	–	333,106	570,008
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	(115,556)	(30,131)	(95,782)
Payments to increase holding in current asset investment	(316,000)	–	–
Disposal of current asset investment	393,027	1,475,735	1,475,735
Net cash inflow/(outflow) from capital expenditure and financial investment	(38,529)	1,445,604	1,379,953
Financing			
Issue of shares	992,003	–	–
Shareholder loans	275,000	–	–
Capital element of finance lease	(2,318)	(2,318)	(4,636)
Net cash inflow from financing	1,264,685	(2,318)	(4,636)
Increase in cash	491,417	1,625,745	1,382,217

Notes on the Interim Report

For the six months ended 30 September 2004

1. BASIS OF PREPARATION

The interim financial information has been prepared in accordance with the principal accounting policies of the Group as set out in the Group's 2004 annual report and financial statements.

The financial information set out in this report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the year ended 31 March 2004 have been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on these financial statements was unqualified and did not contain a statement under section 237(2) of the Companies Act 1985.

The interim financial statements have been reviewed by the company's auditors. A copy of the auditor's review report is attached to the interim report.

2. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge to tax because of the availability of losses within the Group. Research and development tax credits have been received relating to the three years ended 31 March 2003 totalling £570,008. The Directors received professional advice when making the claims and believe they meet all of the conditions for the relief. No claim has yet been submitted for the financial year to 31 March 2004 but the directors have no reason to believe that the claim will not be received. The tax credits are accounted for on a cash basis. In common with all companies that have received such credits, the amounts received are subject to potential future clawback by the Inland Revenue.

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Research and development tax credits	–	110,000	460,008

3. CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Loss for the period	(384,959)	(478,610)	(769,347)
Currency differences on foreign currency net investments	(1,012)	(1,595)	(512)
Total losses recognised since last financial statements	(385,971)	(480,205)	(769,859)

4. LOSS PER SHARE

The loss per share is calculated by reference to the loss attributed to ordinary shareholders divided by the weighted average number of shares in issue during the period, as follows:

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Loss for the period	(384,959)	(478,610)	(769,347)
Weighted average number of shares in issue	79,448,441	78,958,480	78,962,754
Basic and diluted loss per share (pence)	(0.5)	(0.6)	(1.0)

5. EXCEPTIONAL COSTS IN RESPECT OF PURCHASE OF A BUSINESS INTEREST

On 6 February 2002 the company became a party to an agreement entered into by Lombard Risk Systems Ltd to purchase a third party's interest in one of its operating divisions which is an important business activity of the Group, and for the third party to perform future services to the Group.

The total consideration of £1,054,600 is charged to the profit and loss account in instalments between 1 January 2002 and 31 December 2004, being the period that the Group will benefit from the agreement.

£854,600 of the consideration is payable in monthly instalments from 6 February 2002 to 31 December 2004 and £200,000 is payable in monthly instalments from 31 December 2004 to 31 December 2006. The differences between the charge to the profit and loss account over three years and the payments over five years are accounted for as a deferred creditor, or deferred debtor as appropriate.

Interest is charged on the outstanding balance at 10% per annum.

For the period ended 30 September 2004, a total of £222,199 (2003: £231,991) was charged to the profit and loss account. This comprised £132,944 gross salary (2003: £132,944) and £16,713 employers NIC (2003: £16,721); interest of £29,719 (2003: £39,503) and other operating costs of £42,823 (2003: £42,823).

The company has guaranteed the performance of the agreement by Lombard Risk Systems Ltd.

6. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Operating loss	(379,478)	(468,493)	(1,057,960)
Depreciation	36,241	66,474	123,146
Increase in debtors	(388,284)	102,701	(29,419)
Increase in creditors	51,287	252,387	553,372
Net cash outflow from operating activities	(680,234)	(46,931)	(410,861)

7. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Increase in cash during the period	491,417	1,625,745	1,382,217
Cash inflow from financing	(275,000)	–	–
Cash outflow from finance leases	2,318	2,318	4,636
Change in net debt resulting from cashflows	218,735	1,628,063	1,386,853
Net debt at 1 April	(134,705)	(1,521,558)	(1,521,558)
Net funds / (debt) at period end	84,030	106,505	(134,705)

8. ANALYSIS OF CHANGES IN NET FUNDS

	6 months to 30 Sep-04 (unaudited) £	6 months to 30 Sep-03 (unaudited) £	12 months to 31 Mar-04 (audited) £
Cash in hand and at bank	877,520	120,415	72,887
Overdrafts	(509,216)	–	(196,000)
Debt due after more than one year: Convertible loans	(275,000)	–	–
Finance Leases	(9,274)	(13,910)	(11,592)
Net funds / (debt) at period end	84,030	106,505	(134,705)

Shareholder Information

Company registration number:	3224870
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Nominated Advisor and Broker:	Noble & Company Limited 76 George Street Edinburgh EH2 3BU
Auditors:	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
Corporate Solicitors:	Memery Crystal 44 Southampton Buildings London EC2A 1AP
Registrars:	Computershare Investor Services PLC PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ

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