

Lombard Risk



Excellence in financial software and managed services



Lombard Risk Management plc

Interim Report & Accounts

Half Year Ended 30 September 2005

Highlights

For the half year ended 30 September 2005

- Disposal of ValuSpread business for consideration of up to £6m considerably strengthens the Company's ability to execute its strategic plan
- Successful acquisition and integration of STB Systems Ltd further strengthens our market position through the additional client base gained and enhances our related product offerings to common customers. Cost savings have been achieved.
- Profit before tax £5.13m (2004: loss £0.38m)
- Turnover £2.20 million (2004: £2.29 million)
- Operating loss £0.81 million (2004: £0.38 million)
- Net cash and marketable securities £3.71m (2004: £0.94m)
- Prospects include strong sales pipeline for Colline™ product

Chairman's Statement

For the half year ended 30 September 2005

Summary

The half year was dominated by two significant capital events, firstly the sale of the ValuSpread business to Fitch Ratings Ltd for up to £6.0m (of which £5.8m had already been achieved and recognized by the end of the period), and secondly the acquisition of STB Systems Ltd for up to £3.0m. Both these events were very significant, and resulted in the Group ending the period with a strong balance sheet and cash position for a company of its size and a good platform for growth.

The Company made a Profit Before Tax of £5.13m and a Profit After Tax of £4.83m, in both cases a record result.

Client gains were made in the business area of collateral management for the Company's Colline™ product (rebranded from Firmament Collateral), and this product also recorded a particularly large increase in sales pipeline. The STB Systems business got off to a good start in the Group with new client wins in the United Kingdom, USA, Asia and New Zealand, and STB Systems looks on track to achieve its earn-out.

Financial

Revenue was £2.20m against £2.29m in the comparable period last year and £4.62m for the full year to March 2005. Profit before tax was £5.13m, made up of an operating loss of £0.81m balanced by a profit of £5.97m on the sale of the ValuSpread business. Cash and marketable securities at the end of the period were a total of £3.71m.

The sale of the ValuSpread business was at a price that represented more than 10 years of contribution from that business, and the Board believes it was a very good deal for the Company. We have a much stronger balance sheet and cash position as a result of the sale, but the inevitable consequence is that it will take a little time for the rest of the Group to make up for the operating profits that ValuSpread made. STB Systems should go some way towards that in profit terms, and it also has higher revenues than ValuSpread did. STB Systems' first month of trading in the Group was however a particularly good month for contract renewal reasons and should not be taken as representative of the average month.

Recurrent revenue has historically been a high proportion of revenues at Lombard Risk. We have more than replaced the recurrent revenues lost with the sale of ValuSpread with recurrent revenues from STB Systems, with the definition of recurrent revenue being that we continue to receive it unless we lose the customer. In addition, the revenue profile remains well dispersed, with no single client accounting for more than 4 % of total revenue.

Software Products

Oberon continues to make a profit and to provide capital to support the development of other products.

Colline™, our award winning collateral management software product (rebranded from Firmament Collateral), now has good reference sites in both the banking and energy sectors, while regulatory pressure and market anxiety following the Refco crisis have contributed to demand for a solution. A very wide range of opportunities for this product are being generated in the banking, fund management and energy areas, and we expect this to lead to significant client gains and revenues during 2006. There will be a combination of a licence, rental and ASP model for this product, and the split of revenues between these different models will become clearer over coming months.

Chairman's Statement (Continued)

For the half year ended 30 September 2005

Firmament Trading has had a pause in revenue growth, as we have switched the development effort away from primary focus on credit derivatives to providing valuation capability for a much wider range of instruments including equities, foreign exchange, interest rates and commodities. Until this process is nearer completion, we are not devoting significant marketing effort to the product.

STB Regulatory Reporting software continues to make good progress and remains the market leader in the UK regulatory reporting market with 130 out of around 500 banks in the UK using the product. There are also reporting solutions for US, Hong Kong and Singapore regulatory reporting, with other countries under development.

STB Detector, which is an anti money laundering software product, has made some good client gains with a variety of financial institutions in different countries.

Managed Services and Data

The continued strong growth in the hedge fund and alternative investment markets have heightened the awareness of, and demand for, independent valuations by both asset managers and their investors. In addition, there has been increasing focus by regulators on independent valuation and the IAS 39 directive on fair value accounting for derivatives, which will be significant drivers for the Independent Valuation Services business. These factors have already been reflected in a healthy growth in sales leads for the business as well as new customers.

Personnel

The purchase of STB Systems brought an experienced and capable team to the Company. We are delighted to have welcomed Michael Thomas and his team into the Group.

We were sorry to say good-bye to the ValuSpread team after the purchase by Fitch Ratings, but we are thankful to them all for their good work. As a data customer of Fitch Ratings following the sale, we look forward to remaining in contact with the team for some time to come.

Investments

Lombard Risk still holds a stake of 3% (5.6 million shares) in its former subsidiary IDOX plc, which is quoted on AIM. The Board's position remains that it will retain or dispose of this holding based on investment considerations alone.

IDOX is an example of a Lombard Risk business that was successfully incubated and then spun out at an appropriate time. The ValuSpread business sold this year to Fitch Ratings Ltd is a more recent example. The Company has now built up a proven track record in incubating businesses and crystallizing the capital value of some of them, and over the next few years it can be anticipated that the Company will engage in further similar corporate activity if it feels that this is the best way of creating shareholder value at a particular point in a business's development.

Prospectus

The Board believes that the good level of recurrent revenues of the business overall, as well as the combined customer base of ourselves and that of STB Systems, provides a sound foundation for growth, both organically and by acquisition. The Company's focus remains on software and services in the areas of derivatives, with risk management and regulation an increasingly strong focus. The target market remains banks and hedge funds with the energy sector a growing opportunity. The sales pipeline for the Colline™ product looks especially promising at the time of writing, although inevitably there is some uncertainty on timing of revenues for individual deals. The Board remains positive about the growth story and prospects for the Company over the next few years.

Chairman's Statement (Continued)

For the half year ended 30 September 2005

Once again I would like to thank all my colleagues in London and our other offices, as well as our advisors, for their hard work and support.



J M Wisbey

Chairman & CEO

23 December 2005

The interim report was approved by the Board of Directors on 22 December 2005

Independent reviewer's report

To the Members of Lombard Risk Management plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2005 which comprises the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement and the related notes 1 to 11. 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 2005.

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON**

23 December 2005

The maintenance and integrity of the Lombard Risk Management plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated profit and loss account

For the half year ended 30 September 2005

	Note	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Turnover – continuing operations		1,794,101	2,290,246	4,623,957
– acquisitions		406,487	–	–
		<u>2,200,588</u>	<u>2,290,246</u>	<u>4,623,957</u>
External charges		(89,825)	(103,093)	(200,758)
Gross profit		<u>2,110,763</u>	<u>2,187,153</u>	<u>4,423,199</u>
Staff costs		(2,141,267)	(1,842,270)	(3,910,659)
Other operating charges		(772,995)	(531,881)	(1,295,293)
Exceptional costs		(11,345)	(192,480)	(297,077)
		<u>(2,925,607)</u>	<u>(2,566,631)</u>	<u>(5,503,029)</u>
Operating loss				
Continuing activities before exceptional items and goodwill		(952,984)	(186,998)	(782,753)
Operating profit – acquisitions		163,874	–	–
Goodwill amortisation		(14,389)	–	–
Exceptional costs	7	(11,345)	(192,480)	(297,077)
Total operating loss		<u>(814,844)</u>	<u>(379,478)</u>	<u>(1,079,830)</u>
Profit on disposal of current asset investments		–	49,024	49,024
Profit on disposal of business		5,965,126	–	–
Interest receivable		10,179	774	6,526
Interest payable		(31,147)	(55,279)	(109,788)
Profit/(loss) on ordinary activities before taxation		<u>5,129,314</u>	<u>(384,959)</u>	<u>(1,134,068)</u>
Tax on loss on ordinary activities	4	<u>(300,000)</u>	<u>–</u>	<u>–</u>
Profit/(loss) for the period transferred to/(from) reserves		<u>4,829,314</u>	<u>(384,959)</u>	<u>(1,134,068)</u>
Earnings/(loss) per share				
Basic (pence)	6	4.1	(0.5)	(1.2)
Diluted (pence)		4.0	–	–

All operations are continuing.

Consolidated Balance Sheet

As at 30 September 2005

	Note	At 30-Sep-05 (unaudited) £	At 30-Sep-04 (unaudited) £	At 31-Mar-05 (audited) £
Fixed assets				
Goodwill	11	3,439,081	–	–
Tangible assets		303,145	172,810	285,061
		<u>3,742,226</u>	<u>172,810</u>	<u>285,061</u>
Current assets				
Debtors due within one year		1,808,897	1,302,359	1,198,451
Current asset investment		571,358	571,250	571,358
Cash at bank and in hand	3	3,142,079	877,520	327,419
		<u>5,522,334</u>	<u>2,751,129</u>	<u>2,097,228</u>
Creditors: Amounts falling due within one year		<u>(3,296,887)</u>	<u>(2,378,907)</u>	<u>(1,306,486)</u>
Net current assets		<u>2,225,447</u>	<u>372,222</u>	<u>790,742</u>
Total assets less current liabilities		<u>5,967,673</u>	<u>545,032</u>	<u>1,075,803</u>
Creditors: Amounts falling due after one year		<u>(29,623)</u>	<u>(212,726)</u>	<u>(219,126)</u>
Deferred income		<u>(1,212,933)</u>	<u>(1,411,812)</u>	<u>(1,595,336)</u>
Net assets/(liabilities)		<u>4,725,117</u>	<u>(1,079,506)</u>	<u>(738,659)</u>
Capital and reserves				
Called up share capital		1,057,509	948,102	1,020,875
Share premium		3,019,569	1,398,392	2,415,110
Revaluation reserve		170,957	170,957	170,957
Other reserves		112,017	118,181	118,648
Profit and loss account		365,065	(3,715,138)	(4,464,249)
Equity shareholders' funds/(deficit)		<u>4,725,117</u>	<u>(1,079,506)</u>	<u>(738,659)</u>

Consolidated Cash Flow Statement

For the half year ended 30 September 2005

	Note	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Net cash outflow from operating activities	8	(950,390)	(680,234)	(1,322,630)
Returns on investments & servicing of finance				
Interest received		10,179	774	6,526
Interest paid		(29,528)	(54,728)	(108,719)
Finance lease interest		(1,619)	(551)	(1,069)
Net cash outflow from returns on investments and servicing of finance		(20,968)	(54,505)	(103,262)
Taxation		–	–	–
Capital expenditure & financial investment				
Payments to acquire tangible fixed assets		(80,921)	(115,556)	(281,582)
Purchase of current asset investment		–	(316,000)	(316,000)
Purchase of subsidiary	11	(1,296,857)	–	–
Net cash balances acquired within the subsidiary	11	31,002	–	–
Disposal of current asset investment		–	393,027	393,024
Disposal of tangible fixed asset		–	–	9,062
Disposal of business	2	4,610,049	–	–
Net cash inflow/(outflow) from capital expenditure and financial investment		3,263,273	(38,529)	(195,496)
Financing				
Issue of shares		–	992,003	2,081,494
Shareholder loans		–	275,000	–
Capital element of finance lease		(7,255)	(2,318)	(9,574)
Net cash (outflow)/inflow from financing		(7,255)	1,264,685	2,071,920
Increase in cash	10	<u>2,284,660</u>	<u>491,417</u>	<u>450,532</u>

Notes on the Interim Report

For the half year ended 30 September 2005

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 2005 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 2005 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 auditors' review report is attached to the interim report.

2. CORPORATE ACTIVITY

On 26 August 2005, Lombard Risk Systems Ltd, a wholly owned subsidiary of Lombard Risk Management plc, disposed of its ValuSpread business to Fitch Ratings Ltd. The maximum consideration payable amounted to £6m in cash plus a further £540,000 of deferred income. As at 30 September 2005, £5.3m of the consideration had been received less 10% placed in escrow and expenses paid, with a further £0.5m being recognised in September and received during October 2005. Included within the expenses arising from the disposal are bonuses, totalling £140,000, payable to two of the Directors of Lombard Risk Management plc.

3. CASH BALANCES HELD IN ESCROW

Included within the cash at bank and in hand balance is an amount of £530,000 received as part consideration on the disposal of the ValuSpread business and being held in an Escrow account. This balance is due to be released to the Group within one year of the interim financial reporting date. Full receipt of this balance is subject to certain clauses in the sale agreement not being breached and the Board is confident that this amount will be received in full.

4. TAXATION

The tax provision of £300,000 reflects the fact that the Group has available tax losses to partially offset the profits generated in the period.

The Group has received to date R&D tax credits totalling £570,008. No claim has been submitted for R&D tax credits for the financial years ending 31 March 2004 and 31 March 2005. As for all companies that have received these credits, the amounts are subject to potential future HM Revenue & Customs claw back.

5. CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Profit/(loss) for the period	4,829,314	(384,959)	(1,134,068)
Currency differences on foreign currency net investments	(6,631)	(1,012)	237,194
Total profits/(losses) recognised since last financial statements	<u>4,822,683</u>	<u>(385,971)</u>	<u>(896,874)</u>

Notes on the Interim Report

For the half year ended 30 September 2005

6. EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share is calculated by reference to the profit/(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-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Profit/(loss) for the period	4,829,314	(384,959)	(1,134,068)
Weighted average number of shares in issue	118,811,032	79,448,441	95,935,032
Basic earnings/(loss) per share (pence)	4.1	(0.5)	(1.2)
Fully diluted number of shares	137,005,086	–	–
Diluted earnings per share (pence)	4.0	–	–

7. EXCEPTIONAL COSTS IN RESPECT OF PURCHASE OF A BUSINESS

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, and for the third party to perform future services to the Group. The total consideration of £1,054,600 was charged to the profit and loss account over a three year period from January 2002 to December 2004. £854,600 of the consideration was payable in monthly instalments from February 2002 to December 2004 with the outstanding being payable in monthly instalments from January 2005 to December 2006. Interest was charged on the outstanding balance at 10% per annum.

Following the disposal of the ValuSpread business to Fitch Ratings Ltd on 26 August 2005, as per the terms of the agreement, £278,044 of the outstanding balance was paid during October, with a final payment of £79,044 to be paid in April 2006.

For the period ended 30 September 2005, a total of £30,439 (2004: £222,199) was charged to the profit and loss account. This comprised £Nil gross salary (2004: £132,944) and £11,345 employers NIC (2004: £16,713); interest of £19,094 (2004: £29,719) and other operating costs of £Nil (2004: £42,823).

8. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Operating loss	(814,844)	(379,478)	(1,079,830)
Depreciation	93,633	36,241	130,327
Goodwill amortisation	14,389	–	–
Decrease/(increase) in debtors	337,881	(388,284)	(289,506)
Increase/(decrease) in creditors	(581,449)	51,287	(83,621)
Net cash outflow from operating activities	<u>(950,390)</u>	<u>(680,234)</u>	<u>(1,322,630)</u>

Notes on the Interim Report

For the half year ended 30 September 2005

9. ANALYSIS OF CHANGES IN NET FUNDS

	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Cash at bank and in hand	2,612,079	877,520	327,419
Overdrafts	–	(509,216)	–
Debt due after more than one year:			
Convertible loans	–	(275,000)	–
Finance leases	(44,135)	(9,274)	(51,390)
Net funds at period end	<u>2,567,944</u>	<u>84,030</u>	<u>276,029</u>

10. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	6 months to 30-Sep-05 (unaudited) £	6 months to 30-Sep-04 (unaudited) £	12 months to 31-Mar-05 (audited) £
Increase in cash during the period	2,284,660	491,417	450,532
Cash inflow/(outflow) from financing	–	(275,000)	9,574
Cash inflow/(outflow) from finance leases	7,255	2,318	(49,372)
Change in net funds resulting from cash flows	<u>2,291,915</u>	<u>218,735</u>	<u>410,734</u>
Net funds/(debt) at 1 April	276,029	(134,705)	(134,705)
Net funds at period end	<u>2,567,944</u>	<u>84,030</u>	<u>276,029</u>

Notes on the Interim Report

For the half year ended 30 September 2005

11. ACQUISITIONS

On 31 August 2005 the Group acquired the entire share capital of STB Systems Ltd for up to £3,000,000. The first instalment was for a consideration of £1,267,322 in cash and 7,326,779 newly issued ordinary shares of the Company. There is an additional maximum consideration of £1,000,000 contingent earn-out shares to be issued as detailed below. The purchase of the share capital of STB Systems Ltd has been accounted for by the acquisition method of accounting.

The assets and liabilities of STB Systems Ltd acquired were as follows:

	Book value £	Accounting adjustment £	Provisional Fair value £
Tangible assets	75,071	(45,574)	29,497
Debtors	448,132	–	448,132
Bank and cash	31,001	–	31,001
Creditors	(941,025)	–	(941,025)
Total net liabilities	<u>(386,821)</u>	<u>(45,574)</u>	<u>(432,395)</u>
Goodwill			3,453,470
			<u>3,021,075</u>
Satisfied by:			
Cash consideration			1,267,322
Share consideration			641,093
Deferred contingent consideration			1,000,000
Expenses arising from acquisition			112,660
			<u>3,021,075</u>

The fair value adjustment made to the assets and liabilities of the Company at the date of acquisition relates to an accounting policy adjustment to bring depreciation rates into line with those of the Group.

The consideration in deferred contingent earn-out shares is dependent on the directors of STB Systems Ltd meeting revenue and profit targets during the period from 1 June 2005 to 30 September 2005 and 31 March 2006 and is subject to a maximum payout of £1,000,000 in ordinary shares in the Company. This has been accrued for in full. The results of STB Systems Ltd have been consolidated with effect from 1 September 2005.

Shareholder Information

Company registration number:	3224870
Directors:	John Wisbey - Chairman & CEO Ian Peacock - Deputy Chairman Christopher Rose Brian Crowe Dan Kochav (Appointed 2 December 2004) Christopher Wright
Secretary:	Spencer Backhouse
Registered office:	21st Floor Empress State Empress Approach Lillie Road London SW6 1TR
Nominated Advisor and Broker:	Noble & Company Limited 120 Old Broad Street London EC2N 1AR
Auditors:	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
Corporate Solicitors:	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Registrars:	Computershare Investor Services PLC PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ

www.lombardrisk.com

London

21st Floor
Empress State
Empress Approach
Lillie Road
London
SW6 1TR

tel +44 20 7384 5000
fax +44 20 7384 5142

Hong Kong

35th Floor
Central Plaza
18 Harbour Road
Hong Kong

tel +852 2593 1100
fax +852 2593 1200

New York

Suite 2028
Lincoln Building
60 East 42nd Street
New York
NY 10165
USA

tel +1 212 682 4930
fax +1 212 682 6219

Singapore

Caltex House
30 Raffles Place
#23-00 Singapore 048622
Singapore

tel +65 6233 6859
fax +65 6233 6800

Cape Town

3rd Floor
Safmarine House
22 Riebeeck Street
Cape Town 8001
South Africa

tel +27 21 413 7400
fax +27 21 413 7134

Shanghai

Aurora Plaza
99 Fucheng Road
Pudong
Shanghai
P.R. China

Email InvestorRelations@lombardrisk.com

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