

Preliminary Results for the Year Ended 31 March 2006

Lombard Risk Management plc
4 July 2006

Lombard Risk Management plc, a leading risk management, valuation and regulatory reporting software company, has today announced its preliminary results for the year to 31 March 2006. Commenting on the results, John Wisbey, Chairman and Chief Executive said "This was a transformational year which saw us lay the ground for a real advance in the business. Revenues in the first 3 months of the new financial year have been stronger than any other quarter in the company's history with the Colline collateral management software and the STB-Reporter regulatory reporting software making particularly strong headway"

Highlights

- Year of significant advancement including:
 - Heavy investment in the Shanghai operation and in R&D for Colline and other products
 - Acquisition of STB Systems Ltd in August 2005 which brought market leadership for UK bank regulatory reporting software.
- Excellent start to the 2007 financial year with record quarterly revenues of approximately £2.0m achieved in the June quarter
- Results for the 2006 financial year in line with market expectations based on announcement of 24 April 2006
 - Profit before tax £3.22m, following the gain of £5.97m on ValuSpread disposal (2005: loss £1.13m)
 - Turnover up 1.7% to £4.70m (2005: £4.62m)
 - Net cash and marketable securities £2.3m (2005: £0.9m)
- Strong outlook for revenues and promising outlook for cost savings as the Shanghai operation moves forward.

Enquiries:

Lombard Risk Management plc:
John Wisbey, Chairman and CEO
T: +44 (0)20 7384 5000
E: john.wisbey@lombardrisk.com

Noble & Company Ltd (Nominated Advisor) :
Matthew Hall, Director
Tel: +44 (0)20 7763 2200

Summary

The year was one of laying the ground for a real advance in our business. Major investments, all expensed, were made in the second half of the year in the establishment of the new Shanghai operation and in R&D for Colline and other products. The acquisition of STB Systems in August 2005 for around £3.0m brought Lombard Risk market leadership for UK bank regulatory reporting software, and relationships with 140 out of 350 banks in the UK. The positive result of the investment in Colline was already starting to be apparent at the end of the financial year, while the cost and revenue benefits of investment in the Shanghai operation should progressively become apparent during the 2007 and 2008 financial years.

The sale of the ValuSpread business to Fitch Ratings Ltd for up to £6.0m (of which £5.9m had been recognized by the end of the period) was a significant event. This ensured that despite the heavy investment in the future the Group was able to end the period with a relatively strong balance sheet and cash position for a company of its size, as well as having an excellent platform for growth.

The Company made a Profit After Tax of £3.2m, a record result.

Towards the end of the financial year and since then the group has traded very strongly with particularly good performance by the Colline collateral management product and the STB-Reporter regulatory reporting product. In the strongest start yet to a new financial year since the Company was founded, the Company has achieved June quarter revenues of just under £2m.

Financial

Revenue increased to £4.70m against £4.62m in the comparable period last year. Profit before tax was £3.2m, made up of an operating loss of £2.75m 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 £2.29m.

The sale of the ValuSpread business, in August 2005, 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. The downside of that is of course that the Group no longer enjoys either the contribution it had from ValuSpread nor the ability to charge various shared resources to ValuSpread. The operating result was affected by the fact that it has taken a little while for the rest of the business to make up for ValuSpread's positive results. STB Systems should go some way towards that in profit terms, and it also has higher revenues than ValuSpread did.

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 such revenue being that we continue to receive it unless we lose the customer. Recurrent revenues for the Group are running at around £4m. In addition, the revenue profile remains well dispersed, with no single client last year accounting for more than 5 % of total revenue.

Valuation and Risk Management Software Products

Oberon, the trading and risk management system, remained profitable for the seventeenth consecutive year. Oberon continues to provide capital to support the development of other products, and has gained some new customers although it has lost others. Work has continued to make Oberon a very open system using our OBI utility, and this work is now being carried out largely in our Shanghai operation. Functionally the product has made good progress with new pricing models and support for additional instruments.

Colline, our software for collateral management, has enjoyed several contract wins and has seen a particularly large increase in sales pipeline which is promising for the current financial year. Client wins for Colline have included banks, asset management firms, hedge funds and energy companies. An ASP service for Colline has also successfully gone live. Drivers for Colline's growth include the need for many entities to free up credit lines, reduction of economic capital and Basel II. We obtained a rating for the product in Risk Magazine.

Regulatory and Compliance Software Products

The Group's regulatory and compliance software business STB Systems has continued to make good progress with a growing pipeline ahead of the Basel II regulatory changes. There has been an excellent start to the new financial year with two important orders received in April. However, the delayed timing of some significant expected deals meant that the second and final earn-out arising from last August's acquisition and based on results to the end of March 2006 has not been achieved in full.

STB Systems is the market leader for U.K. Bank Regulatory Reporting with over 140 out of 350 banks in the U.K. using the STB-Reporter product for regulatory reporting to the FSA. We believe that the high average level of customer satisfaction offers an excellent opportunity for the Group to expand its business with many of these clients.

The firm's ability to offer global solutions has been greatly enhanced through its now having regulatory offerings available or under production for several EMEA and Asian countries as well as the United States. In addition the AML product STB-Detector has seen good revenue growth in several countries.

Independent Valuations

The Group's Independent Valuation business, which from 2005 has operated as a separate subsidiary, is progressing well with the full implementation of an important contract with a large bank-owned administrator of hedge funds. There are a number of other opportunities in prospect. The Board believe there is a clear and important opportunity, in conjunction with partners, to move beyond the provision of niche valuations to an industry solution for independent valuations. This transition will require a high level of additional investment and the Board believes it is prudent and appropriate that the Independent Valuation subsidiary attracts third party investors to assist with the funding of this further expansion rather than for the Group itself to fund all that investment. This process is underway and a few interested parties have been identified, although it is too early to give any guidance on whether that will lead to those parties actually investing.

Personnel

Following the acquisition of STB Systems, we were pleased to welcome Michael Thomas onto our board on successful completion of the first part of STB's earn-out. We welcome many excellent new colleagues into the Group, most from STB Systems and our Shanghai office.

With the sale of the ValuSpread business we sadly had to say goodbye to a number of talented former colleagues. We wish them well with Fitch Ratings.

Investments

Lombard Risk still holds a stake of 2.9% (5.6 million shares) in its former subsidiary IDOX plc, which is quoted on AIM. Although that company has had a difficult past two months with a profit warning and the subsequent departure of its Chief Executive, the board takes comfort from IDOX's strong cash position and customer base among local authorities and believes it has sound fundamentals. The Board's position is that it will continue to review the level of this holding based on investment considerations alone.

IDOX is an example of a business successfully incubated by Lombard Risk and then spun out at an appropriate time. This is a model that the Board feels comfortable with, and over the next few years it can be anticipated that the Company will engage in further similar corporate activity. As mentioned above, we recently announced that we were seeking external investors for our Independent Valuation business.

Prospects

The Board believes that the high level of recurrent revenues of the business overall and the product positioning of Lombard Risk provides a strong foundation for growth. The Board is confident that market demand in our focus areas of collateral management, derivatives, regulation and compliance will continue to grow, as will the area of independent valuations. Backed up by the fast growth experienced in the first three months of the new financial year, the Board is very positive on revenue growth for FY 2007 and remains positive about the prospects for the Company over the next few years – subject to the Board's normal caveat that there will inevitably be some volatility of earnings arising from the exact timing of the Group's larger software licence deals.

The outlook for the cost side is likely to be one of higher costs initially owing to the establishment of Shanghai, but followed by an extremely promising outlook for future cost containment as a progressively higher proportion of software development and other functions are carried out. Shanghai should allow revenues to grow much faster than costs from now on.

Our first full year as a quoted company was a significant year for the Group. The acquisition of STB Systems and the establishment and build-up of the new Shanghai operation inevitably meant that many of our team had to put in considerable extra effort. I would like to thank all my colleagues, as well as our advisors, for their hard work and support.

John Wisbey
Chairman and CEO

Consolidated Profit & Loss Account

	<u>Continuing operations</u>				
	Existing	Acquisitions		2006	2005
Note	Operations*	£	£	£	£
Turnover	3,144,560	1,557,013	4,701,573	4,623,957	
External charges	(93,168)	(9,211)	(102,379)	(200,758)	
Gross profit	3,051,392	1,547,802	4,599,194	4,423,199	
Staff costs	(4,037,346)	(1,076,200)	(5,113,546)	(3,910,659)	
Other operating charges	(1,662,295)	(555,895)	(2,218,190)	(1,295,293)	
Exceptional costs	(21,469)	-	(21,469)	(297,077)	
	(5,721,110)	(1,632,095)	(7,353,205)	(5,503,029)	
Operating Profit / (loss)					
- Before exceptional items and goodwill amortisation	(2,648,249)	24,221	(2,624,028)	(782,753)	
- Goodwill amortisation	-	(108,514)	(108,514)	-	
- Exceptional costs	(21,469)	-	(21,469)	(297,077)	
- Total operating loss	(2,669,718)	(84,293)	(2,754,011)	(1,079,830)	
Profit on disposal of current asset investment			-	49,024	
Profit on disposal of business			5,971,447	-	
Interest receivable			43,296	6,526	
Interest payable			(38,114)	(109,788)	
Profit / (loss) on ordinary activities before taxation			3,222,618	(1,134,068)	
Tax on profit / (loss) on ordinary activities			-	-	
Profit / (loss) for the year transferred to / (from) reserves			3,222,618	(1,134,068)	
Earnings / (loss) per share					
Basic (pence)	1		2.6	(1.2)	
Diluted (pence)	1		2.5	(1.2)	

* includes disposed ValuSpread business until August 2005

Consolidated Balance Sheet

	Note	2006 £	2005 £
Fixed assets			
Intangible assets		3,712,680	-
Tangible assets		344,387	285,061
		4,057,067	285,061
Current assets			
Debtors due within one year		1,126,024	1,198,451
Debtors due after one year		77,898	-
Investment		571,358	571,358
Cash at bank and in hand		1,723,035	327,419
		3,498,315	2,097,228
Creditors: Amounts falling due within one year		(1,952,725)	(1,306,486)
Net current assets		1,545,590	790,742
Total assets less current liabilities		5,602,657	1,075,803
Creditors: Amounts falling due after one year		(24,686)	(219,126)
Deferred income		(1,999,996)	(1,595,336)
Net assets / (liabilities)		3,577,975	(738,659)
Capital and reserves			
Called up share capital		1,082,510	1,020,875
Share premium account		2,415,110	2,415,110
Revaluation reserve		170,957	170,957
Other reserves		1,151,029	118,648
Profit and loss account		(1,241,631)	(4,464,249)
Shareholders' funds / (deficit)	2	3,577,975	(738,659)

The financial statements were approved by the board on 4 July 2006 and signed on its behalf by:

John Wisbey
Chairman & CEO

Consolidated Cash Flow Statement

	Note	2006 £	2005 £
Net cash outflow from operating activities	3	(2,580,974)	(1,322,630)
Returns on investments & servicing of finance			
Interest received		43,296	6,526
Interest paid		(35,976)	(108,719)
Finance lease interest		(2,138)	(1,069)
Net cash inflow / (outflow) from returns on investments and servicing of finance		5,182	(103,262)
Acquisitions and Disposals			
Purchase of subsidiary		(1,382,033)	-
Net cash balances acquired within the subsidiary		31,002	-
Disposal of Business		5,596,554	-
Net cash inflow/(outflow) from acquisitions and disposals		4,245,523	-
Capital expenditure & financial investment			
Payments to acquire tangible fixed assets		(259,604)	(281,582)
Purchase of current asset investment		-	(316,000)
Disposal of current asset investment		-	393,024
Disposal of tangible fixed asset		-	9,062
Net cash inflow / (outflow) from capital expenditure and financial investment		(259,604)	(195,496)
Financing			
Issue of shares		-	2,081,494
Capital element of finance lease		(14,511)	(9,574)
Net cash (outflow) / inflow from financing		(14,511)	2,071,920
Increase in cash	4	1,395,616	450,532

1 EARNINGS PER SHARE

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

	2006	2005
	£	£
Profit / (loss) for the year	3,222,618	(1,134,068)
Weighted average number of shares in issue	123,840,622	95,935,032
Earnings / (loss) per share – basic (pence)	2.6	(1.2)
Dilutive effect of share options	5,000,000	-
Total	128,840,622	95,935,032
Earnings / (loss) per share – diluted (pence)	2.5	(1.2)

2 RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS / (DEFICIT)

	2006	2005
	£	£
Profit / (loss) for the financial year	3,222,618	(1,134,068)
Foreign exchange reserve	(38,286)	(545)
Issue of 10p Ordinary shares	-	2,097
Issue of 0.5p new Ordinary shares	61,635	150,897
Premium on new Ordinary shares	1,070,667	2,210,764
Share issue costs	-	(282,264)
	4,316,634	946,881
Shareholders' funds / (deficit) at 1 April	(738,659)	(1,685,540)
Shareholders' funds / (deficit) at 31 March	3,577,975	(738,659)

3 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006	2005
	£	£
Operating loss	(2,754,011)	(1,079,830)
Depreciation	229,775	130,327
Goodwill amortisation	108,514	-
Decrease / (increase) in debtors	442,661	(289,506)
(Decrease) / increase in creditors	(607,913)	(83,621)
Net cash outflow from operating activities	(2,580,974)	(1,322,630)

4 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006	2005
	£	£
Increase in cash in the year	1,395,616	450,532
Cash outflow from finance leases	14,511	9,574
Inception of finance leases	-	(49,372)
Change in net funds resulting from cashflows	1,410,127	410,734
Net funds / (debt) at 1 April	276,029	(134,705)
Net funds at 31 March	1,686,156	276,029

5 ANALYSIS OF CHANGES IN NET FUNDS

	1 Apr 05	Cash flow	Non cash movements	31 Mar 06
	£	£	£	£
Cash at bank and in hand	327,419	1,395,616	-	1,723,035
Finance leases	(51,390)	14,511	-	(36,879)
	276,029	1,410,127	-	1,686,156

6 BUSINESS DISPOSAL

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 £6.0m in cash plus a further £466,000 of deferred income. As at 31 March 2006, £5.9m of the consideration had been received less 5% placed in escrow and expenses paid. Included within the expenses arising from the disposal are bonuses, totalling £140,000, paid to two of the directors of Lombard Risk Management plc.

7 CASH BALANCES HELD IN ESCROW

Included within the cash at bank and in hand balance is an amount of £295,000 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 on the first anniversary of the transaction 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.

8 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	Adjustments	Provisional Fair Value
	£	£	£
Tangible assets	75,071	(45,574)	29,497
Debtors	448,132	-	448,132
Bank and cash	31,002	-	31,002
Creditors	(941,026)	(374,465)	(1,315,491)
Total net liabilities	(386,821)	(420,039)	(806,860)
Goodwill			3,821,194
			<hr/> 3,014,334
Satisfied by:			
Cash consideration			1,267,322
Share consideration			632,301
Deferred contingent consideration			1,000,000
Expenses arising from acquisition			114,711
			<hr/> 3,014,334

The fair value adjustment made to the assets and liabilities of the Company at the date of acquisition relates to bringing depreciation rates into line with those of the Group. The adjustment made to creditors is an alignment of accounting policies in respect of deferred income.

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. The first earn out consideration was met and a total of £500,000 was paid in shares. The remaining £500,000 remains accrued for in full. The results of STB Systems Ltd have been consolidated with effect from 1 September 2005.

9 PUBLICATION OF NON STATUTORY ACCOUNTS

The financial information set out in this announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The consolidated balance sheet, the consolidated profit and loss account, the consolidated cash flow statement and associated notes for the year ended 31 March 2006 have been extracted from the group's statutory accounts upon which the auditor's opinion is unqualified and does not contain any statement under section 237 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2006 will be filed with the Registrar of Companies.