

VEGA Group PLC
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United Kingdom

13 December 2005

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2005

VEGA Group PLC ("VEGA"), the independent Programme and System Assurance company, today announces its interim results for the six months ended 31 October 2005.

KEY POINTS – FINANCIAL*

- Revenue up 25% to £30.6m (2004: £24.5m)
 - UK up 21% to £19.8m
 - Germany up 35% to £8.6m
 - Rest of Europe up 24% to £2.2m
- Operating profit up 23% to £2.1m (2004: £1.7m)
- Operating margin stable at 7.0% (2004: 7.1%)
- Profit before tax up 20% to £2.0m (2004: £1.6m)
- Diluted EPS up 7% to 6.24p (2004: 5.83p)
- Interim dividend to be paid on 9 March 2006, up 25% to 0.625p (2004: 0.500p)
- Minimal impact on reported earnings from IFRS conversion

* All figures restated to IFRS

KEY POINTS – OPERATIONAL

- Strong revenue growth in each geography and market sector
 - Aerospace up 18% to £15.6m
 - Defence up 34% to £12.7m
 - Government up 33% to £2.3m
- Investment in growth but operating margins maintained.
- Significant contract wins around the provision of secure systems to the UK intelligence community.
- Renewal of VEGA's original operations support contract with the European Space Agency, extending this relationship to over 32 years.
- Appointment of senior executives to lead business development and partnerships.

Chief Executive, Phil Cartmell stated:

"We are pleased to report strong growth in both revenue and profits. Our strategy of extending each of our businesses within Europe through targeted investment is paying off, as demonstrated by the increase in revenues across each of our key geographies and markets. We will continue to target smart acquisitions to augment our organic growth. We enter the second half with a strong order pipeline and remain confident of another successful year, in line with expectations."

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

It has been another successful six months for VEGA with strong growth in both revenue and profit. This growth reflects, in particular, strong performances in the area of institutional space, both within existing accounts and from new contract wins, and in our defence consulting business in the command and control arena. It also reflects a full half year's contribution from Anite Systems GmbH ("Anite"), which was acquired in September 2004.

In the first half, the Group has consolidated its position as an independent Programme and System Assurance company and has continued to win contracts to support its clients in successfully completing major business programme and system implementations, helping to deliver the benefits that are critical to their success.

In line with the growth strategy outlined at the end of last year, the Group has made significant investments in the first half focussing on expanding each of its key geographies (UK, Germany, Holland and France) and extending its service lines across these geographies. We are delighted to report that in each geography VEGA delivered double digit revenue growth in the first half whilst maintaining the group operating margin.

Also in line with the strategy, the Board has defined its core markets to be Aerospace, Defence and Government. Each of these markets also demonstrated double digit growth in revenues compared with the same period last year.

Supporting the Group strategy of forming alliances with other major players in its markets, the Group has appointed a director of strategic partnerships from 1 December 2005, with a strong track record of achievement in Baan, Unisys and LogicaCMG.

The Group is also targeting smart acquisitions to augment its consulting business and expand its geographic reach.

GROUP RESULTS

Group revenue for the six months to 31 October 2005 was up 25% to £30.6m (2004: £24.5m). Excluding the impact of Anite, which contributed only two month's revenue to the prior year period, growth in revenue was 20%.

Operating profit was up 23% to £2.1m (2004: £1.7m) and operating margins remained stable at 7.0% (2004: 7.1%). In the period, £0.2m was invested to support growth in the business and the implementation of the corporate strategy. This included the cost of additional senior management training, service line development, an external review of sales processes and the recruitment of additional sales resources.

Profit before tax was up 20% to £2.0m (2004: £1.6m) and diluted earnings per share were up 7% to 6.24p (2004: 5.83p).

Cash generated from operations in the six months to 31 October 2005 was £0.1m, reflecting absorption of cash into working capital as the business grew and the second half weighting of the Group's cashflow. The figure for the same period last year was an outflow of £1.5m, although this included the payment of £0.7m of aborted acquisition costs.

MARKET SECTOR REVIEW

	Six months to 31 October 2005 £m	Six months to 31 October 2004 £m	Growth	Share
Revenue by market sector				
Aerospace	15.6	13.3	18%	51%
Defence	12.7	9.5	34%	42%
Government	2.3	1.7	33%	7%
Total	30.6	24.5	25%	100%

Aerospace

For VEGA, the Aerospace market comprises institutional space and aerospace manufacturers. This is the Group's main market in Germany, France and Holland and represents approximately 25% of the UK business. Group revenue in the Aerospace market grew by 18% in the period, or 8% excluding the full half impact of the Anite acquisition. During the period the Group appointed a senior business development executive to lead Aerospace sales who is a former long standing director of another leading company providing services to the space industry.

Defence

The Defence market comprises the National Defence Agencies and for VEGA this work is predominantly in the UK. This market includes work for the intelligence community contracted through the Ministry of Defence. Revenue in this sector grew by 34% in the six months ended 31 October 2005 compared with the same period last year.

Government

The Government sector comprises primarily those departments dealing with National Security, Health and Criminal Justice. This work is primarily in the UK. Revenues in this sector grew by 33% in the period.

REVIEW OF OPERATIONS

	Six months to 31 October 2005 £m	Six months to 31 October 2004 £m	Growth	Share
Revenue by geography				
UK	19.8	16.3	21%	65%
Germany	8.6	6.4	35%	28%
Rest of Europe	2.2	1.8	24%	7%
Total	30.6	24.5	25%	100%

UK

At £19.8m (2004: £16.3m), total revenue in the UK was up 21% compared with the same period last year. The main area of growth was in the Defence consulting business in the command and control arena where the Group has won a number of new contracts as prime contractor. The first of these was announced in January 2005 and relates to the supply of client-side consulting services to the Defence Procurement Agency ("DPA") in the area of Command Support Information Systems ("CSIS"). Further contract wins were announced in September and October 2005 relating to the provision of secure systems for the UK intelligence community. Within the Defence Logistics Organisation ("DLO"), VEGA also increased in the period the number of its own consultants working alongside the Defence Information Infrastructure team that is overseeing the £5bn rollout of new IT infrastructure across the MoD. Overall, revenues in the Defence sector in the UK grew by 36%.

Aerospace revenues declined by 8% in the UK in the period due to a number of projects completing. The associated resources have been redeployed onto Defence projects. In the Government sector revenues grew by 33% with new contract wins with the Foreign and Commonwealth Office, Intelligence Agencies, Europol, Connecting for Health and a metropolitan ambulance service.

Operating margins in the UK increased to 7.2% (2004: 6.7%).

Germany

Revenues in Germany grew by 35% in the period to £8.6m, from £6.4m in the corresponding period last year. Excluding the impact of the Anite acquisition last year, revenues grew by 15%. This reflects increasing demand from existing customers in institutional space as well as new customer wins. In October 2005, the business underlined its position as one of the leading suppliers to the European Space Agency when it announced that it had been chosen for a seventh consecutive contract to provide operational support services to the European Space Operations Centre in Darmstadt, Germany, extending this relationship to over 32 years.

The operating margin in Germany for the period was 7.6% compared with 7.9% for the same period last year.

Rest of Europe

Rest of Europe comprises the Group's operations in France and Holland. In total, these operations increased their revenues in the period by 24% to £2.2m, from £1.8m last year. The total operating margin declined from 19.6% to 14.5%. In France, investment continues with the aim of establishing an operation in the heart of the French aerospace industry in Toulouse and this has started to return results with two opportunities to work with CNES, the French national space agency, identified in the period. The work in Holland is primarily with the European Space Research and Technology Centre where revenues have grown, despite some pressure on margins.

DIVIDEND

The Board is pleased to announce a 25% increase in the interim dividend, to 0.625p per share. This will be paid on 9 March 2006 to shareholders on the register at close of business on 3 February 2006 and is in line with the Board's stated intention of following a prudent and progressive dividend policy.

BOARD CHANGES

As announced at the end of the financial year, Ken Lever retired at the Annual General Meeting in September after nearly seven years as a non-executive director of the Group. A recruitment process is underway to find a replacement and a further announcement will be made in due course.

OUTLOOK

Our strategy of extending each of our businesses within Europe through targeted investment is paying off, as demonstrated by the increase in revenues across each of our key geographies and markets. We will continue to target smart acquisitions to augment our organic growth. We enter the second half with a strong order pipeline and remain confident of another successful year, in line with expectations.

Phil Cartmell
Chief Executive

12 December 2005

Consolidated Income Statement

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Revenue (note 2)	30,637	24,519	52,602
Net operating costs	(28,504)	(22,779)	(49,114)
Operating profit			
Before amortisation of acquired intangibles, share based payments and non recurring items	2,357	1,863	4,035
Amortisation of acquired intangibles	(164)	(115)	(460)
Share based payments	(60)	(8)	(43)
Non recurring items (note 4)	-	-	(44)
Operating profit	2,133	1,740	3,488
Finance costs	(170)	(102)	(386)
Finance income	-	-	59
Profit before tax	1,963	1,638	3,161
Income tax expense – UK (note 5)	(441)	(319)	(684)
Income tax expense – Foreign (note 5)	(218)	(200)	(328)
Profit for the period	1,304	1,119	2,149

All profit for the period is attributable to equity holders of the parent

Earnings per share (note 6)

Basic	6.41p	5.86p	10.90p
Diluted	6.24p	5.83p	10.78p

Adjusted earnings per share (note 6)

Basic	7.51p	6.50p	13.67p
Diluted	7.31p	6.47p	13.52p

Dividends per share proposed in respect of the period (note 7)

Interim	0.625p	0.500p	-
Final	-	-	1.500p

Consolidated Balance Sheet

	As at 31 October 2005 £000	As at 31 October 2004 £000	As at 30 April 2005 £000
Non-current assets			
Property, plant and equipment	990	1,045	1,044
Goodwill	15,058	15,381	14,966
Other intangible assets	519	991	675
Deferred income tax assets	169	133	169
	16,736	17,550	16,854
Current assets			
Trade and other receivables	15,647	16,330	12,970
Prepayments	97	135	200
Income tax	9	-	9
Cash and short-term deposits	1,947	504	3,492
	17,700	16,969	16,671
Total assets	34,436	34,519	33,525
Current liabilities			
Trade and other payables	11,438	12,026	11,198
Financial liabilities	625	2,979	1,651
Income tax payable	2,556	936	1,788
Provisions	-	157	36
	14,619	16,098	14,673
Non-current liabilities			
Financial liabilities	4,396	5,041	4,290
Provisions	200	-	288
Deferred income tax liabilities	205	345	269
	4,801	5,386	4,847
Total liabilities	19,420	21,484	19,520
Net assets	15,016	13,035	14,005
Equity attributable to equity holders of the parent			
Issued share capital	1,018	1,018	1,018
Share premium	6,226	6,226	6,226
Retained earnings	5,520	3,410	4,480
Other reserves	2,252	2,381	2,281
Total equity	15,016	13,035	14,005

Consolidated Cash Flow Statement

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Cash flow from operating activities			
Profit after tax	1,304	1,119	2,149
Taxation	659	519	1,012
Net finance expense	170	102	327
Operating profit	2,133	1,740	3,488
(Increase)/decrease in debtors	(2,549)	(3,553)	312
Increase/(decrease) in creditors	115	129	(547)
(Decrease)/increase in provisions	(123)	(142)	25
Depreciation and amortisation	427	361	892
Profit on sale of fixed assets	(2)	(8)	(9)
Share based payments	60	8	43
Cash generated from operations	61	(1,465)	4,204
Tax refunded/(paid)	42	(44)	(260)
Net cash flow from operating activities	103	(1,509)	3,944
Cash flow from investing activities			
Acquisition of subsidiary	-	(5,211)	(5,263)
Capital expenditure and financial investment	(214)	(189)	(409)
Interest received	-	-	59
Net cash flow from investing activities	(214)	(5,400)	(5,613)
Cash flows from financing activities			
New bank loan	-	5,000	5,000
Debt issue costs	-	(102)	(102)
Debt repayments	(994)	(795)	(1,590)
Interest paid	(171)	(102)	(365)
Dividends paid	(305)	(185)	(287)
Net cash flow from financing activities	(1,470)	3,816	2,656
Net cash flow from activities	(1,581)	(3,093)	987
Effects of exchange rate changes	10	(155)	34
Cash and cash equivalents at beginning of period	3,440	2,419	2,419
Cash and cash equivalents at end of period	1,869	829	3,440

Reconciliation of Net Cash Flow to Movement in Net Debt

Opening net debt	(2,449)	(165)	(165)
New bank loan, net of expenses	-	(4,898)	(4,898)
Repayment of bank loan	994	795	1,590
Exchange and other movements	(38)	(155)	37
Net cash flow from activities	(1,581)	(3,093)	987
Movement in net debt	(625)	(7,351)	(2,284)
Closing net debt	(3,074)	(7,516)	(2,449)

Consolidated Statement of Recognised Income and Expense

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Profit for the period	1,304	1,119	2,149
Currency translation differences on foreign currency investments	(19)	(104)	3
Total recognised gains and losses for the period	1,285	1,015	2,152

Changes in Shareholders' Funds

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Opening shareholders' equity	14,005	9,724	9,724
First time adoption of IAS 32 and 39	(57)	-	-
Opening shareholders' equity as restated	13,948	9,724	9,724
Profit for the period attributable to shareholders	1,304	1,119	2,149
Dividends	(305)	(185)	(287)
New share capital issued (net of expenses)	-	2,473	2,373
Charge for share based payments	60	8	43
Foreign currency translation	(19)	(104)	3
Gain on interest rate hedge	28	-	-
Closing shareholders' equity	15,016	13,035	14,005

1. Basis of preparation

With effect from 1 May 2005, VEGA Group PLC has moved to reporting its financial results in accordance with International Financial Reporting Standards (“IFRS”) as required by European Union law.

This interim results announcement is prepared in accordance with the IFRS accounting policies expected to apply at 30 April 2006. These policies are unchanged from those set out in the restatement of the Group’s results for IFRS published on 28 October 2005 and available on the Company’s website at www.vega-group.com. There has been no change between the accounting basis published in that document and the interim results announcement except that VEGA has adopted IAS 32 and IAS 39 with effect from 1 May 2005 and consequently recognised the fair value of its interest rate swaps in equity. This has resulted in the recognition of a liability of £57,000 at 1 May 2005. As allowed by IFRS 1 ‘First time adoption of International Financial Reporting Standards’ the provisions of IAS 32 and IAS 39 have not been applied to the comparative periods and are applied from 1 May 2005.

As permitted, this interim report has been prepared in accordance with UK listing rules and not in accordance with IAS 34 ‘Interim Financial Reporting’ and is therefore not fully compliant with IFRS.

A reconciliation of equity at 1 May 2004, the date of transition to IFRS, and at 30 April 2005 was provided in the IFRS restatement document issued on 28 October 2005. A reconciliation of profit for the year ended 30 April 2005 was also published within that document. A copy of these documents can be found on the Company’s web site at www.vega-group.com.

The financial information in this report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The interim financial information for the six months ended 31 October 2005 is unaudited but has been reviewed by the auditors.

The comparative figures for the year ended 30 April 2005 are extracted from the statutory accounts of the Group for that year, now amended to conform with applicable IFRS as discussed above. These published accounts, in a form consistent with UK GAAP, were reported on by the auditors without qualification or statement under sections 237(2) or (3) of the Companies Act 1985 and have been delivered to the Registrar of Companies.

The interim report was approved by the directors on 12 December 2005.

2. Segmental analysis – analysis by geography

The Group operates in one segment, that of Programme and System Assurance, within the following territories:

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Revenue			
UK	19,764	16,293	33,693
Germany	8,613	6,403	15,063
Rest of Europe	2,260	1,823	3,846
Total revenue	30,637	24,519	52,602
Operating profit			
UK	1,429	1,084	2,002
Germany	658	503	1,256
Rest of Europe	328	358	709
Central costs	(282)	(205)	(479)
Total operating profit	2,133	1,740	3,488

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Revenue by market sector			
Aerospace	15,598	13,270	28,665
Defence	12,731	9,520	20,085
Government	2,308	1,729	3,852
Total revenue	30,637	24,519	52,602

3. Acquisitions

During the period the accounting for the acquisition of Anite Systems GmbH has been finalised which has resulted in an amendment of the amounts recoverable on contracts previously published. The effect of this is to increase the fair value of amounts recoverable on contracts previously reported by £92,000.

4. Non-recurring items

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Vacant property provision	-	-	(105)
Costs associated with the integration of Anite Systems GmbH	-	-	149
Total non-recurring items	-	-	44

5. Taxation

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
UK corporation tax	441	319	720
Foreign corporation tax	282	245	449
Current tax charge	723	564	1,169
UK deferred tax credit	-	-	(36)
Foreign deferred tax credit	(64)	(45)	(121)
Total	659	519	1,012

Foreign deferred tax credit includes £64,000 (Six months to 31 October 2004: £45,000) relating to amortisation of acquired intangibles.

6. Earnings per share

	Six months to 31 October 2005 £000	Six months to 31 October 2004 £000	Year ended 30 April 2005 £000
Earnings attributable to shareholders	1,304	1,119	2,149
Adjusted for:			
Amortisation of acquired intangibles	164	115	460
Share based payments	60	8	43
Non-recurring items (note 4)	-	-	44
Adjusted earnings	1,528	1,242	2,696

	Six months to 31 October 2005 Ordinary shares	Six months to 31 October 2004 Ordinary shares	Year ended 30 April 2005 Ordinary shares
Basic weighted average number of shares	20,356,821	19,100,749	19,723,623
Dilutive potential ordinary shares	549,181	83,224	213,642
Diluted weighted average number of shares	20,906,002	19,183,973	19,937,265

7. Dividends

An interim dividend of 0.625p per share (Six months to 31 October 2004: 0.5p) amounting to a dividend of £127,000 (Six months to 31 October 2005: £102,000) was declared by the Directors at their meeting on 12 December 2005 and will be paid on 9 March 2006.

Dividends paid in the period amounted to £305,000 (1.5p per share) (Six months to 31 October 2004: £185,000 (1.0p per share)).

INDEPENDENT REVIEW REPORT TO VEGA GROUP PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 October 2005 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Recognised Income and Expenses, and Consolidated Statement of Changes in Shareholders' funds, and the related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions 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 Listing Rules of the Financial Services Authority.

The next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance the Listing Rules of the Financial Services Authority.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

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 group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. 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 International Standards on Auditing (UK and Ireland) 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 31 October 2005.

Ernst & Young LLP
Luton
12 December 2005