

Intercede Group plc
Interim Report 2008



MyID[®]
*Simply a better way to manage smart
cards and identities*

INTERCEDE GROUP plc

Interim Results for the Six Months Ended 30 September 2008

Chairman's Statement

Business Review

I am pleased to be able to report that excellent commercial and technical progress has been made during the first half of the year. Revenues have increased by 28% to £1,981,000 (2007: £1,546,000), resulting in a profit before tax of £222,000 compared to £45,000 in the same period last year.

As we reported in our trading update at the beginning of October 2008, the equivalent period last year included a one-off upfront licence order of £0.5 million from Thales, whereas this period's sales performance only includes 'business as usual' revenue items. Taking this into account, underlying sales have increased by 90% within a 12 month cycle.

As a result of this improved performance and careful cash management, cash balances at 30 September 2008 totaled £1,839,000, an increase of £686,000 during the year to date. At the time of reporting in December 2008, Intercede's cash balances have further increased to £2,289,000, demonstrating continued positive cash generation.

This represents a turning point in the evolution of Intercede's business and is indicative of the strong commercial progress we continue to make.

Significant advances during the year to date include:

1. Contracts have been won to supply the Intercede MyID[®] Identity and Credential Management System in support of two national identity card programmes. One of these projects is in the Middle East region. These contracts have an aggregate current year revenue potential of US\$1.8m.
2. A sub-contract for MyID products and services has been signed with Lockheed Martin worth an initial US\$1.0m.
3. More than 400,000 US Transport Workers Identity Cards (TWIC) have now been issued using MyID.
4. A Solutions Partnership Contract has been signed with Operational Research Consultants. ORC has supplied MyID product and services to the United Space Alliance, Federal Trade Commission, Federal Housing Finance Administration and the Federal Election Commission.
5. Additionally, ORC has launched a MyID powered service for credentialing civilian contractors accessing US military bases.

2 Intercede Interim Report 2008

6. As a matter of public record, it is noted that the US Federal Aviation Authority (FAA) has purchased Intercede's MyID Identity and Credential Management System from VeriSign and has installed it at the core of its HSPD-12/PIV implementation.
7. Intercede has also delivered MyID licenses to a further US Federal agency via an existing partner. This is a non-PIV application with a large growth potential.
8. The successful deployment of a MyID system at a leading German manufacturing company.
9. The sale and installation of MyID in support of a large UK Government service provider.

In addition to the above projects, Intercede continues to work, via our US partners, with multiple US Federal Agencies on their PIV programmes and has to date sold more than 200,000 licenses under the US Government's HSPD-12 initiative. This constitutes successful ongoing penetration of the large and growing PIV market.

Intercede has entered this year with a significant number of its technical resources contracted to extend the functionality of MyID to support national identity and government-to-citizen projects around the world. These activities have contributed to the high utilisation of our staff, significantly strengthen and expand our product capabilities and once again demonstrate the scalability of MyID and the world-class expertise of our team.

In the private sector we are benefiting from steadily increasing sales of MyID in support of business-to-employee smart card based identity systems, a trend that we expect to continue in both the US and Europe.

Financial Results

Sales during the period totaled £1,981,000 which, at a gross margin of 99%, resulted in an operating profit of £268,000. This compares with sales in the corresponding period last year of £1,546,000 at a gross margin of 99% and an operating profit of £90,000.

Continued tight control over costs and cash management resulted in a £606,000 cash inflow before financing which compares with a £244,000 inflow during the comparative period. This inflow resulted in cash balances totaling £1,839,000 as at 30 September 2008.

Intellectual Property

On 1 October 2008, ActivIdentity filed a patent infringement action against Intercede in the Northern District of California. ActivIdentity alleges that Intercede infringes U.S. Patent No. 6,575,360. Intercede has retained the services of Allen & Overy as legal counsel and the firm of Fenwick & West LLP as litigation counsel in the US. Intercede believes that it has meritorious defences to this action and intends to defend itself vigorously.

Outlook

The first half of the year has been profitable and cash generative. Furthermore, orders received to date in the second half of this year are strong and guarantee that we will exceed the full year financial performance of the previous period in terms of revenue, profit and cash generation. As in previous years, the full year outcome will be dependent upon the timing of receipt of orders and our subsequent ability to deliver and recognise revenues in accordance with the Group's accounting policy. Nevertheless, the level and pace of customer and partner activity is at an all time high and I remain confident that this year represents a step change in Intercede's commercial development.



Richard Parris
Chairman & Chief Executive
9 December 2008

Consolidated Income Statement

	6 months ended 30 September 2008 £'000	6 months ended 30 September 2007 £'000	Year ended 31 March 2008 £'000
Revenue	1,981	1,546	2,805
Cost of sales	<u>(25)</u>	<u>(21)</u>	<u>(30)</u>
Gross profit	1,956	1,525	2,775
Administrative expenses	<u>(1,688)</u>	<u>(1,435)</u>	<u>(2,877)</u>
Operating profit/(loss)	268	90	(102)
Investment revenue	28	23	61
Finance costs	<u>(74)</u>	<u>(68)</u>	<u>(136)</u>
Profit/(loss) before tax	222	45	(177)
Tax	<u>61</u>	<u>90</u>	<u>90</u>
Profit/(loss) for the period	<u>283</u>	<u>135</u>	<u>(87)</u>
Earnings per share (pence)			
- basic	0.8p	0.4p	(0.2)p
- diluted	<u>0.6p</u>	<u>0.3p</u>	<u>(0.2)p</u>

Consolidated Balance Sheet

	As at 30 September 2008 £'000	As at 30 September 2007 £'000	As at 31 March 2008 £'000
Non-current assets			
Property, plant and equipment	<u>57</u>	<u>37</u>	<u>52</u>
Current assets			
Trade and other receivables	866	223	419
Cash and cash equivalents	<u>1,839</u>	<u>1,575</u>	<u>1,153</u>
	<u>2,705</u>	<u>1,798</u>	<u>1,572</u>
Total assets	<u>2,762</u>	<u>1,835</u>	<u>1,624</u>
Equity			
Share capital	4,302	4,292	4,292
Share premium account	2,834	2,764	2,764
Other reserves	1,508	1,508	1,508
Equity reserve	109	109	109
Retained earnings	<u>(9,568)</u>	<u>(9,629)</u>	<u>(9,851)</u>
Total equity	<u>(815)</u>	<u>(956)</u>	<u>(1,178)</u>
Current liabilities			
Trade and other payables	493	470	350
Deferred revenue	1,177	556	619
Convertible loan notes	<u>1,907</u>	<u>–</u>	<u>–</u>
	<u>3,577</u>	<u>1,026</u>	<u>969</u>
Non-current liabilities			
Convertible loan notes	<u>–</u>	<u>1,765</u>	<u>1,833</u>
Total equity and liabilities	<u>2,762</u>	<u>1,835</u>	<u>1,624</u>

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Equity reserve £'000	Retained earnings £'000	Total £'000
At 31 March 2008	4,292	2,764	1,508	109	(9,851)	(1,178)
Issue of shares, net of costs	10	70	-	-	-	80
Retained profit for the period	-	-	-	-	283	283
At 30 September 2008	<u>4,302</u>	<u>2,834</u>	<u>1,508</u>	<u>109</u>	<u>(9,568)</u>	<u>(815)</u>
At 31 March 2007	4,271	2,107	1,508	109	(9,764)	(1,769)
Issue of shares, net of costs	21	657	-	-	-	678
Retained profit for the period	-	-	-	-	135	135
At 30 September 2007	<u>4,292</u>	<u>2,764</u>	<u>1,508</u>	<u>109</u>	<u>(9,629)</u>	<u>(956)</u>
At 31 March 2007	4,271	2,107	1,508	109	(9,764)	(1,769)
Issue of shares, net of costs	21	657	-	-	-	678
Retained loss for the period	-	-	-	-	(87)	(87)
At 31 March 2008	<u>4,292</u>	<u>2,764</u>	<u>1,508</u>	<u>109</u>	<u>(9,851)</u>	<u>(1,178)</u>

Consolidated Cash Flow Statement

	6 months ended 30 September 2008 £'000	6 months ended 30 September 2007 £'000	Year ended 31 March 2008 £'000
Cash flows from operating activities			
Operating profit/(loss)	268	90	(102)
Depreciation	12	8	18
(Increase)/decrease in trade and other receivables	(441)	12	(184)
Increase/(decrease) in trade and other payables	701	29	(29)
Taxation received	61	90	90
Net cash from operating activities	<u>601</u>	<u>229</u>	<u>(207)</u>
Investing activities			
Interest received	22	22	61
Purchases of property, plant and equipment	(17)	(7)	(32)
Net cash from investing activities	<u>5</u>	<u>15</u>	<u>29</u>
Financing activities			
Proceeds on issue of shares	80	678	678
Net increase in cash and cash equivalents	686	922	500
Non-cash movement	(74)	(68)	(136)
Net debt at beginning of period	(680)	(1,044)	(1,044)
Net debt at end of period	<u>(68)</u>	<u>(190)</u>	<u>(680)</u>

Notes to the Accounts

1. Preparation of the interim financial statements

These interim financial statements have been prepared under IFRS on the basis of the accounting policies set out in the Group's Annual Report for the year ended 31 March 2008. They were approved by the Board of Directors on 5 December 2008.

The Group is not required to apply IAS 34 Interim Financial Reporting at this time.

These interim financial statements do not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2008 have been delivered to the Registrar of Companies. The Auditors' Report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985, but it did contain an emphasis of matter paragraph.

The Interim Report will be mailed to shareholders prior to the end of December 2008 and copies will be available on the website (www.intercede.com) and at the registered office: Intercede Group plc, Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire, LE17 4PS.

2. Segmental Reporting

All of the Group's revenue, operating losses and net assets originate from operations in the United Kingdom. The Directors consider that the activities of the Group constitute a single class of business.

The split of revenue by geographical destination can be analysed as follows:

	6 months ended 30 September 2008 £'000	6 months ended 30 September 2007 £'000	Year ended 31 March 2008 £'000
United Kingdom	882	857	1,378
Rest of Europe	380	114	298
USA	704	572	1,085
Rest of World	15	3	44
	<u>1,981</u>	<u>1,546</u>	<u>2,805</u>

3. Earnings per share

The calculation of earnings per ordinary share is based on the profit/(loss) for the period and the weighted average number of ordinary shares in issue during each period i.e. September 2008: 36,871,850; September 2007: 35,569,896 and March 2008: 35,831,101. The diluted earnings per share is based on a weighted average of 48,735,009 (September 2007: 48,211,164) which reflects the potential conversion of all existing convertible loan stock, warrants and share options. Basic and diluted earnings per share are the same for the year ended 31 March 2008 as potential dilution cannot be applied to a loss making period.

4. Dividend

The Directors do not recommend the payment of a dividend.

5. Analysis and reconciliation of net debt

	6 months ended 30 September 2008 £'000	6 months ended 30 September 2007 £'000	Year ended 31 March 2008 £'000
Cash and cash equivalents	1,839	1,575	1,153
Convertible loan notes	<u>(1,907)</u>	<u>(1,765)</u>	<u>(1,833)</u>
Net debt	<u>(68)</u>	<u>(190)</u>	<u>(680)</u>

The convertible loan notes mature on 31 May 2009 at which point each of the loan note holders will elect whether to exercise their conversion rights (at exercise prices of 15p and 20p per ordinary share for the original £450,000 and £982,000 loans respectively), agree to a further extension of the loans or request the repayment of their portion of the loans plus accrued interest to that point. The total potential repayment including interest is £2,005,000.

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