



**EMBARGOED UNTIL MONDAY 13<sup>th</sup> FEBRUARY 2006**

**NETSERVICES plc**  
**(‘NETSERVICES’ or ‘the Company’)**

**PATHFINDER ADMISSION DOCUMENT RELEASED TODAY**

**FLOTATION ON AIM**

***Distributing complex technologies simply***

**NetServices, “the people behind the people”** which offers white labelled data and voice services, today announces that it has issued its Pathfinder Admission Document in connection with its flotation on AIM.

**HIGHLIGHTS**

- Since the mid 1990s Manchester based NetServices has built up a strong position in networking solutions, primarily broadband and dial up connections and also hosts networks for businesses
- Its offering comprises:
  - Wide Area Networking (WAN)
  - Voice 4 IP
  - Mission critical hosting
  - Bespoke programming and solution development
- NetServices does business with major blue chip companies including
  - Partners : BT, Computerland, Kingston Communications
  - Customers: BT, Kingston Communications and Tyco
- NetServices has enjoyed approximately 100% compound growth since 1999 and for the year end 31<sup>st</sup> August 2005 reported revenues of £11 million and already has secured £16 million of contracted revenues for the year end 31<sup>st</sup> August 2006
- The Company has grown both organically and through acquisition of network assets and businesses including in May 2005 the purchase of Telefonica UK Ltd adding approximately £5 million annualised revenue, £10 million of additional network capacity and access to European customers

## Details of the Placing

- NetServices is proposing to raise approximately £5 million through the issue of New Ordinary Shares
- The Placing also comprises the sale of shares on behalf of NetServices' founder raising approximately £6 million
- The Company has had provisional clearance of VCT and EIS tax relief
- Net proceeds of the Placing will primarily be used for:
  - Working capital
  - Voice4IP expansion
  - Developing infrastructure
- Arbuthnot Securities Limited is acting as Nominated Advisor and Broker to the Company.

**On plans for flotation, Mark Vickers, Chief Executive, commented:**

***“We distribute complex technologies simply. The proposed flotation will allow us to expand our white label ADSL customer base, further build our network infrastructure and take advantage of the growing demand for converged WAN and voice solutions.***

***“In addition, the Directors believe that the status of being quoted on AIM may provide additional flexibility or opportunities in NetServices commercial activities, access to capital markets and provide corporate and market endorsement as well as incentivisation of our key staff, whom we consider important to NetServices development.”***

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## 1. Introduction

NetServices provides network services, primarily broadband and dial up connections, and hosts networks for businesses. NetServices operates an indirect business model selling products and services through a customer base of over 500 wholesalers and resellers, reselling to both small and medium sized enterprises (“SMEs”) and telecom companies, including BT and Kingston, using carrier-class technology. The Group specialises in providing infrastructures capable of supporting voice, data, video and image services directly to the desktop.

The broadband digital subscriber line (“DSL”) market has grown rapidly in both the business and residential sector and this is expected to continue. Ofcom, in “The Communications Market 2005” published in July 2005, estimated that there were 250,000 households signing up for “high-speed” services every week and that by the end of 2005, 99.6 per cent. of UK homes with an internet connection would be connected to a broadband-enabled exchange.

The Directors believe that NetServices’ business model has allowed the Company to position itself to benefit from the growing UK broadband market. The Directors also believe that Admission will *inter alia*, provide funds to allow the Company to further develop its business-to-business Voice over Internet Protocol (“VoIP”) offering, Voice4IP, as well as raising the Company’s profile and awareness amongst potential customers and the market in general.

## 2. History and Background

The business was founded in 1996 and Mark Vickers, the Company’s Chief Executive, joined in 1998. In 2001, the business (NetServices Limited) started to focus on hosted services and leased lines and at that time Mark Vickers was appointed Chief Executive. In February 2002, NetServices Limited was acquired by NetServices plc and since then, the Company has grown both organically and by acquisition. To date NetServices has been funded largely from internally generated capital.

In May 2005, NetServices acquired Telefonica’s UK business, adding approximately £5 million of annualised revenue. This acquisition provided the Group with IT infrastructure assets, which had originally cost more than £10 million, additional network capacity, a London office and the ability to service European customers.

The Company’s current network infrastructure comprises 2 data centres (one of which is carrier-class) of approximately 10,000 sq. ft. each, a local fibre network and a national network. This infrastructure has been built or acquired by NetServices for significantly less than its cost, which allows NetServices to offer competitively priced DSL products and complex wide area networking (“WAN”) and hosted solutions.

The Company’s head office is in Manchester and as at the date of this announcement, NetServices employs 92 people (including the executive Directors).

## 3. Products and Services

The Company’s current range of service offerings and products are detailed below:

### (a) Provision of DSLs

The Company offers two types of DSL services: Layer Two Tunnel Protocol (“L2TP”); and Asynchronous Transfer Mode (“ATM”). L2TP enables the operation of a virtual private network (“VPN”) over the internet. ATM is a high-speed switching technique that uses fixed size cells to transmit voice, data and video.

NetServices is a wholesaler of L2TP and ATM DSL. It has multiple L2TP and ATM DSL central pipes purchased from BT. A pipe is a 155 Mb connection with up to 16,000 individual end user lines, which terminate in a number of different locations. The Company uses a number of telecom companies, including Fibernet Group plc and NTL Inc., for the provisioning of these services to customers across the UK and Europe.

NetServices can bundle DSL packages and services which are replacing traditional distance and volume cost based private WAN infrastructures. These services are sold through wholesalers, resellers or the direct channel. Resellers vary in size from Fasthosts and BT Wholesale, down to computer retailers. The Company's wholesale model generates economies of scale by allowing NetServices to offer DSL connections to its resellers at lower prices than those resellers could purchase from BT direct.

*(b) WAN services*

WAN services are the provision and management of private, secure networks to corporate customers. Relevant hardware, such as servers and routers, may be hosted either at the Company's or the customer's premises, or at a combination of the two. NetServices charges for leased lines, equipment rental and support, but the exact services provided vary from customer to customer according to the requirements of the network.

*Private networks*

NetServices' private network services combine DSL, dial-up, leased lines and wireless services in a cost-effective way. These services use the latest industry standards, such as Multi-Protocol Label Switching ("MPLS"), a technique which gives network operators a great deal of flexibility to divert and route traffic around link failures, congestions and bottle necks. By using the latest industry standards, NetServices' private network can offer increased flexibility of usage.

*Managed Servers*

Fully managed hosting solutions occur when NetServices' own servers are exclusively used by a customer pursuant to an agreed service level agreement. Customers choose to use the Company's data centres in conjunction with its WAN solutions in order to bring their core services (such as hosting of servers) into the NetServices network. Customers not only benefit from having their critical data housed in a purpose-built environment, but also from increased resilience as services are moved from the customer's premises to NetServices' data centre. Each server can be built to a different specification depending on the customer's requirements.

Additional services such as firewall protection, back-up and operating software support are available at an additional cost. These additional services can be via the NetServices communal server (the customer can still specify which ports are opened for his server(s)) or behind a dedicated firewall, which NetServices can manage for the customer.

*(c) Dial Up services*

In addition to broadband, NetServices provides dial up internet services. NetServices allocates a telephone number, provided by Kingston to the re-seller. This number is used by the re-seller's customers to connect to NetServices's servers. The majority of allocated numbers are 0845 prefixed numbers but NetServices' has also allocated 0844 and 0870/0871 prefixed numbers.

(d) *VoIP*

NetServices' most recent development is a VoIP application called "Voice4IP" which is in its early roll-out stage. VoIP allows calls to be made over data networks using Internet Protocol ("IP"), a more cost effective way of transporting calls than traditional circuit switching. Voice information is transmitted in discrete digital "packets", rather than an analogue signal over the public switched telephone network. Both the caller and the recipient of the call need to be online simultaneously, preferably at broadband speeds, with compatible software and equipment installed. Consequently call costs are effectively covered by broadband access charges.

The Company has developed its own fully-managed business telephony system known as a soft PBX or an IP-PBX. This is a software-based PBX solution that uses VoIP technology and offers businesses an integrated communications system. The soft PBX is based in NetServices' data centres, from where all calls can connect to traditional telephony networks, via data lines such as broadband. This reduces the expenditure on expensive on-site telephony infrastructure (PBX switches).

Voice4IP differs from other VoIP technology as it is based on NetServices' fully managed Cisco Quality of Services, carrier-class network and therefore does not use the internet. NetServices and Voice4IP together monitor, manage and own the network. External connectivity into the BT core network is provided by ADSL, SDSL or leased line.

Voice4IP was launched in October 2005 and aims to generate customer savings over existing systems (where a company would have a data network and a separate telephony service) by providing free voice calls over multiple UK and European sites. To date, the service is in trial and three customers have ordered the product.

#### **4. NetServices' Network and Operations**

*Network*

The Group operates its network from two data centres, each of approximately 10,000 sq ft. One of the data centres was built by Carrier 1 and is carrier-class. The second data centre was built and designed by NetServices. A proportion of each centre has been provisioned as a controlled hosting environment, with the remaining space available to be brought online as required by expansion.

Controlled hosting environments are critical to the success of data networks. Equipment must be operated at a particular temperature and humidity and be powered from an uninterruptible source. NetServices therefore has a resilient, high capacity power infrastructure for its data centres. The Directors believe that NetServices is currently one of only two UK operators to run a fully voice compliant, Data Stream, Cisco Quality of Service network capable of carrying voice traffic to a business quality standard.

By operating its own data centres, NetServices is able to control capacity and contention (that is the number of lines in use simultaneously) as the backbone network elements are not under the control of a third party. The Company's national core MPLS network has public and private peering arrangements which allow the Company to exchange data free of charge in the UK. Where peering arrangements are not in place, NetServices is also connected to three large internet backbone providers where data can be transferred at a cost. The peering arrangements with other internet service providers ("ISPs") are important for the Company as they assist in providing high availability and a high performance network infrastructure. The Company's peering arrangements with other ISPs include the London Internet Exchange, Xchange point in London, Manchester Network Access Point, Deutsche Commercial Internet Exchange in Frankfurt and Free Internet Exchange in Paris.

### *Operations*

The Company's data centres have on-site personnel, video camera surveillance and a security breach alarm system. Customer access to their equipment is by appointment only and customers are accompanied whilst on-site. An on-site network operations centre monitors the network components and the data centre infrastructure and environment.

NetServices is responsible for the hardware platforms used by both the Company itself and by many of its customers. The Company's engineering staff are trained in server and network equipment deployment and maintenance, working closely with suppliers such as Dell and Cisco to ensure that the principles of the network and infrastructure design are continued through into the hardware.

NetServices's programming teams are responsible for the provision of new systems and the maintenance and management of existing projects. They provide a support structure for both the Company and its customers and have enabled NetServices to launch new products into the market. These products can then be tailored to individual customer needs and extended as part of the ongoing project plan.

## **5. The Market**

In its report "The Communications Market 2005" published in July 2005, Ofcom stated that over 6 million residences in the UK at the end of 2004 were connected to the internet by broadband. As at May 2005, this number had increased to 7.5 million with broadband residential connections exceeding the number of narrowband connections. In addition, Ofcom estimated that there were 250,000 households signing up for "high-speed" services every week and that by the end of 2005, 99.6 per cent. of UK homes with an internet connection would be connected to a broadband-enabled exchange.

Ofcom forecasts that the growth in broadband connections could be the key driver for VoIP rollout to the residential market. For businesses with multiple office locations, the main attraction of VoIP is free calls within an IP platform (e.g. internally or to other companies with VoIP capability). The majority of large businesses already have high-bandwidth permanent IP connections, enabling VoIP connectivity with high quality of service. In "The Communications Market 2005" Ofcom stated that VoIP was making 'significant' inroads into the UK business telephony market, with several large corporate conversions to VoIP in 2005. Recent large corporate VoIP conversions have included Abbey National plc and Marks & Spencer Group plc.

In May 2005, the research group IDC forecast that during the period 2005-2009, Western European IP telephone unit shipments will grow at a CAGR of 25.8 per cent. IDC forecast that the number of connections will rise from 2.5 million connections at the end of 2004 to over 22 million by 2008 when it is expected to yield revenues of US\$7 billion, of which 40 per cent. will be derived from the business market.

The ISP sector has historically been fragmented, but recent corporate activity has indicated that the sector is consolidating. For example, in October 2005, Pipex Communications plc acquired Freedom2Surf, an independent ISP, in January 2006, British Sky Broadcasting Group plc completed its acquisition of Easynet plc and in February 2006, Thus Group plc announced a recommended cash offer for Legend Communications plc and the acquisition of Your Communications plc.

The Directors believe that the ongoing consolidation of the industry should enable the Company to focus on larger, profitable customers and partners. In the Directors' opinion, NetServices is well positioned to benefit from the growth in both broadband-enabled exchanges and VoIP as a consequence of the national reach provided by its 500 wholesalers and resellers.

## **6. Sales and Marketing**

NetServices sells the majority of its products and services through over 500 wholesalers and resellers who resell to SMEs. The Directors believe that this model is successful because:

- it enables access to the customer bases of resellers and partners;
- it reduces sales costs and marketing costs.

However, as well as successfully selling its products and services through wholesalers and resellers, NetServices is currently broadening its sales and marketing activities to include approaching customers direct. The intention is not to compete with the Company's current wholesalers and resellers, but to enable the Company to take its products and services direct to specifically targeted customers with complex WAN requirements.

The Company has recently recruited a customer-facing sales team headed by David Garner who recently joined the Company as Sales Director. The sales team currently consists of 29 people comprising persons with significant industry knowledge and experience.

The Directors believe that the investment made by the Company in sales and marketing both in the financial year to 31 August 2005 and to date during the current financial year, in terms of persons and activities will greatly benefit the Group in the foreseeable future.

## **7. Customers and Partners**

### *Customers*

NetServices has approximately 500 corporate customers across a number of sectors. The customer base comprises predominantly virtual internet service providers ("VISPs") i.e. wholesalers and resellers. NetServices has a small number of direct customers who are typically medium to large corporates who have complex requirements, such as Smith (DS) plc, Staples and Tyco.

### *Partners*

NetServices has developed a number of relationships with companies such as BT Wholesale, Cisco Systems and Kingston which are described below.

### *BT Wholesale*

BT is currently NetServices' largest supplier, supplying all the connectivity for the IpStream and Data Stream end users. BT Wholesale is one of NetServices' largest VISPs, purchasing end user connections through NetServices' Client Control Panel ("CCP"). The CCP is a bespoke online solution for purchasing and monitoring ADSL and SDSL lines. This solution was created by NetServices and is managed and supported in house.

BT Wholesale required a DSL product for resale to customers and partners without extensive network experience and, as a result, NetServices developed BT's Managed Broadband product. This is an end-to-end order management interface which allows BT to order, cancel and provision any level of service that the customer requires. The first orders for the product were in early 2003 and there are currently over 50 resellers and 10,000 orders placed on BT's system.

### *Cisco Systems*

NetServices's network core is run on a Cisco platform and the Company's senior engineers are all Cisco certified. NetServices has a close working relationship with Cisco, for both the network core and also for the customer solutions deployed by the Company. In addition, Cisco introduces NetServices into its reseller base in order to support the Company in projects that require complex networking.

### *Kingston*

Kingston provides all of NetServices' 08XX services. However, NetServices provides Kingston's business-to-business DSL services. In 2002, Kingston installed a Business Network Access Point within NetServices' data centre, which enabled Kingston to service its business customers in the region.

## **8. Competition**

The Directors believe that the Company's products and services overlap to varying degrees with certain ISPs such as Tiscali S.p.A, EasyNet plc and Claranet Limited, network providers such as Vanco plc and Pipex Communications plc, and carriers such as BT and Cable & Wireless plc. However, most of these competitors are focused principally on larger companies.

By contrast, NetServices has chosen to focus on the SME market, mainly because the Directors believe that this sector has not yet been fully exploited due to the smaller size of the customer. In addition, the Directors also believe that NetServices' smaller competitors are regularly faced with significant barriers to entry, in particular a lack of resources which prevents the competitors from acquiring the necessary assets to compete effectively.

The Directors believe that, in its chosen markets, the Company has a number of competitive advantages:

*Price* – NetServices can provide carrier-class capability on a lower cost base as a result of its infrastructure. Wholesale agreements with a number of key partners enable the Company to offer leading-edge solutions with competitive discounts.

*Complexity* – NetServices operates a carrier-class infrastructure and consequently can offer quality complex solutions, including Voice4IP, fully managed and unmanaged services.

*Bespoke solutions* – As a network integrator with its own data centres, NetServices can combine products from both the carriers and partners to offer a bespoke solution.

*L2TP and ATM DSL* – L2TP is a secure, private network solution that brings together privacy and security with cost effective technology. By routing DSL traffic over the Company's national private network, customers are able to reduce the cost of connectivity and retain the same reliability as private circuit solutions. NetServices's DSL solution is available as a private network connection that completely bypasses the internet. NetServices therefore offers the same security and benefits as a private circuit (leased line), but at a reduced cost.

*Flexibility* – NetServices offers solutions that meet both the short and long-term requirements of each customer. The support offered is as bespoke as the network design itself to ensure an optimal fit with the customer's operational needs.

## 9. Summary Financial Information

The following summary of the financial information of NetServices for the three financial periods ended 31 August 2005 has been extracted from the Accountants' Report on NetServices, as set out in the Pathfinder Admission Document. Investors should read the whole of that document and should not rely solely on the summarised information set out below.

	Fifteen months ended 31 Aug 2004 £,000	Year ended 31 Aug 2004 £,000	Year ended 31 Aug 2005 £,000
Turnover	3,944	6,600	11,069
Cost of sales	(1,997)	(3,573)	(7,325)
Gross profit	1,947	3,027	3,744
Operating profit/(loss)*	27	1,068	(342)

- Excludes exceptional costs of £0.4 million in the year to 31 August 2005 relating to the Founder's costs (2003: £0.3 million; 2004: £0.4 million).

Turnover for NetServices' most recent financial year, the year ended 31 August 2005, was approximately £11.1 million (2004: £6.6 million), representing an increase of 68 per cent. compared with the preceding year, and gross profit was approximately £3.7 million (2004: £3.0 million) representing an increase of 23 per cent.

The results for the year ended 31 August 2005 included four months of WAN Services Limited (formerly Telefonica UK Limited) as the acquisition was completed in May 2005. In the four months from 1 January 2005 and prior to its acquisition on 30 April 2005, WAN Services Limited generated turnover of approximately £2.1 million and an operating loss of £9.5 million. In the four months post acquisition until 31 August 2005, WAN Services Limited generated turnover of £1.7 million and an operating loss of £0.3 million.

In addition, during the year ended 31 August 2005, NetServices increased its investment in overheads, principally sales and marketing activities, as a result of the growth of both the business and the market in which the Group operates. The Directors believe that the financial benefit from the acquisition of WAN Services

Limited and the increased investment in sales and marketing will be achieved in future financial periods.

## **10. Current Trading and Prospects**

Trading to date in the current financial year has been in line with the Directors' expectations. Since the beginning of 2006, the Group has won contracts with an annualised value of £\_million and the Directors believe that there is considerable scope for the further growth of NetServices and believe that the Group is well placed to increase its revenues and to exploit the current market opportunities that exist. Consequently, the Board views the Group's future with confidence. The Directors are encouraged by the current trading performance of the Group for the current financial year and the prospects for the foreseeable future. The Directors believe that Admission will lead to increased awareness of the Group and its activities.

## **11. Reasons for Admission and Use of Proceeds**

NetServices is seeking Admission to enable it to fund the next growth phase of the business. Admission is also intended to enhance NetServices' profile and enable the Company to access equity finance which is required for the Company to continue its expansion, both organically and possibly through selective acquisitions. NetServices will continue to invest in developing its product capability and its penetration in the UK.

In addition, the Directors believe that Admission will enhance the Company's credibility in the market and increase brand awareness. Furthermore, Admission will provide the Company's employees with the opportunity to participate in the future success of the Company and should help the Company attract and retain high calibre staff. Furthermore, Admission is intended to provide an exit for NetServices' non-participating founder.

The Company intends to apply the net proceeds of the Placing receivable by the Company

- to further develop and build a dedicated sales team for Voice4IP;
- to build additional infrastructure to cater for market growth;
- to attract, retain, motivate and incentivise key employees;
- to raise the Company's profile and increase awareness amongst potential customers; and
- to provide working capital for the Company.

## **12. Directors, Senior Management and Employees**

The Board comprises three executive Directors and two non-executive Directors (including the non-executive Chairman).

### ***Directors***

**Christopher Townsend**, *Non-executive Chairman*, aged 49.

Christopher is Group Marketing Director at Transport for London. Prior to joining Transport for London in 2003, Christopher spent 12 years in the broadcast and telecoms industry with marketing and commercial director roles at the BBC, BSkyB and Telewest where he was responsible for, and gained extensive experience in, planning and implementing digital TV and broadband services to the UK market. Christopher has an MSc. in Marketing Management and is a non-executive director of Visit London. Christopher was appointed a non-executive director of NetServices in May 2005 and Chairman in October 2005. This non-exec position is fulfilled in his personal time.

**Mark Vickers**, *Chief Executive*, aged 45.

Mark joined NetServices in 1998 and was appointed Chief Executive of NetServices in 2001. He has 25 years' experience in the business-to-business sales arena ranging from business equipment and finance through to internet service provision. Prior to joining NetServices, he was sales director at XTML, a hosting services company, which was subsequently sold to Telenor for £30 million in 1999.

**Steven Hartley**, *Finance Director*, aged 45.

Steven is a chartered accountant who qualified in 1984 and was a partner of BDO Stoy Hayward between 1990 and 1995, when he left to become a founder and finance director of Euro Sales Finance plc, which was floated on AIM in 1995 before moving to the Official List in 1998. Subsequently, Steven consulted for a number of private companies before being appointed finance director of Inter-Alliance Group plc in 2003 until its acquisition by Millfield Group in late 2004. Steven was appointed Finance Director in September 2005.

**David Garner**, *Sales Director*, aged 43.

David has over 20 years' experience in the telecoms industry. He joined the Company in September 2005 from Vanco plc, where he had been global account director since September 2003. Previously, he had been regional director of Kingston InBusiness, part of Kingston, an account director of Equant and also held various positions within BT, including international account manager.

**Graham Norfolk**, *Non-executive Director*, aged 44.

Graham is a founder and partner of Acorn Corporate Finance, a company specialising in advising high growth companies. He is a chartered accountant and former partner of BDO Stoy Hayward. He advises a range of companies and is a non-executive director of two AIM companies, Business Direct Group plc and Disperse Group plc. He is Chairman of Camwood Limited, a venture capital backed software company, and a non-executive director of Chemistry Communications plc, an OFEX quoted company.