
netSERVICES

NETSERVICES PLC INTERIM REPORT 2008



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CORPORATE STATEMENT

NETSERVICES AIMS TO BE THE PROVIDER OF CHOICE FOR
INNOVATIVE CONVERGED NETWORKING SOLUTIONS IN THE UK.

IFC CORPORATE STATEMENT

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HIGHLIGHTS

- ➔ Revenue of £3.68m (2007: £4.04m)
- ➔ Gross profit of £1.60m (2007: £1.59m)
- ➔ Gross profit margin of 44% (2007: 39%)
- ➔ EBITDA of £0.22m (2007: loss £0.33m)
- ➔ Break even (2007: loss £0.75m)
- ➔ Cash in hand at end of period of £1.28m
- ➔ BT Test Labs accreditation of QoS IPStream product

CHAIRMAN'S STATEMENT

"WE ARE PLEASED TO REPORT A SMALL PROFIT AND BELIEVE OUR PROGRESS DEMONSTRATES BOTH THE RESILIENCE OF THE BUSINESS AND VALIDATION OF OUR STRATEGY TO FOCUS ON THE PROVISION OF CONVERGED NETWORKING SOLUTIONS."



SUMMARY

- ➔ BT Test Labs accreditation of NetServices' QoS IPStream product
- ➔ New partnership agreements signed with a large systems integrator and a video conferencing reseller
- ➔ £0.3m investment in core network providing scalable MPLS network

OVERVIEW

I am pleased to announce the results for the six months ended 29 February 2008, our first under International Financial Reporting Standards ("IFRS"), and to provide an update on recent developments within the business.

Revenues for the first half of the year were £3.68m (2007: £4.04m) producing a gross profit of £1.60m (2007: £1.59m). As a result of a continued focus on the operating costs of the group we have been able to generate earnings before interest, tax, depreciation and amortisation ("EBITDA") of £0.22m (2007: loss of £0.33m) which resulted in a profit before tax of £0.003m (2007: loss of £0.75m).

I am pleased that for the first time as a quoted company we can report a small profit, in line with my statement after last year's results. We believe our progress demonstrates both the resilience of the business in responding to market events and validates our strategy to provide converged networking solutions to our business customers.

In the last six months we have continued to invest both time and funds in our core network infrastructure and further development of our product portfolio. In January we were particularly pleased to receive validation from the BT Test Laboratories, Martlesham confirming the efficacy of our "QoS IPStream" product.

HALF YEAR RESULTS

Revenue for the six months ended 29 February 2008 was £3.68m (2007: £4.04m). Revenues from our converged solutions were 10% higher than the same period last year and the second half of last year.

Gross profit was £1.60m (2007: £1.59m) which equated to a gross margin of 43.6%.

We produced EBITDA of £0.22m for the period (2007: loss of £0.33m). There were no significant bad debt charges during the period and little evidence to suggest any material payment problems from any of our customers.

These are the first set of results to be reported under IFRS and we released our transition statement on 24 April 2008, a copy of which can be found on our website at www.netservicesplc.com. Adjustments made have not had a material effect on these results.

The profit for the period of £0.003m (2007: loss of £0.75m) is in line with management's expectations for the period.

Cash balances at 29 February 2008 were £1.28m.

OPERATIONS

Our activity in the last six months has been focused in a number of specific areas:

PRODUCT DEVELOPMENT & CONVERGENCE

We have focused significant effort on refining and enhancing our product sets. We reported in November on our ability to deliver quality of service ("QoS") over the cheapest connectivity product – BT IPStream – and how we believed that this could deliver the benefits of convergence (running data and voice over the same network infrastructure). In January we were successful in obtaining test results from the BT Test Laboratories, Martlesham which provided us with a strong third party endorsement that the technology was effective.

We are now capable of delivering the technology and billing to terminate IP minutes. We currently provide this service to a small number of our customers but are seeing an increasing number of opportunities where this requirement is becoming important.

We are engaged in becoming a Cisco Partner which will allow us to access the markets opening up for converged networking to support unified communications. We hope to make substantial progress during the remainder of the financial year.

INVESTMENT IN CORE NETWORK

The investment in our core network has continued through the period and will complete during the second half of the financial year.

We are seeing an increasing number of opportunities because of our ability to provide a scalable MPLS ("Multi Protocol Label Switching") core which provides the benefits of a low latency, converged network for prospective customers. In particular we are seeing interest in the video conferencing arena, with a number of video conferencing resellers expressing interest in our connectivity solutions.

SALES PIPELINE & PARTNER AGREEMENTS

We reported in November 2007 that our sales pipeline was at its healthiest for 18 months and since then we have continued to see a healthy level of interest from prospective customers.

We have learned that our products are more attractive to these potential customers when they are endorsed by organisations with which they already have good relationships and brand recognition. We have spent a significant amount of time building partnership agreements with organisations that have strong sales channels where we offer a point of differentiation for them; during the period we have secured partnership agreements with a large systems integrator and a video conference reseller. While these agreements do not guarantee contractual revenues, they improve the reach and scale of our sales operations in a cost effective way, and we hope will assist in building our sales in the coming months.

We hope to sign further partnership agreements during the remainder of the financial year and to commence converting the sales opportunities created by these channels.

We continue to build on the good relations we have with our existing customers. We are currently working with a number of our larger customers with a view to implementing our SIP product set to substantially reduce their telephony costs and leverage the value of the network connections we currently provide.

OUTLOOK

We have continued to make good progress in the last six months on delivering our strategy. Although we operate in an industry that is constantly changing, we believe we have the right strategic focus and a significant opportunity to deliver value. Our business model remains flexible enough to respond to the needs of the market place, and we see a number of opportunities ahead, including those arising from the roll-out of 21CN and from the increasingly bandwidth hungry demands of business. We believe our range of products and expertise is attractive to a variety of customers and partners, and remain confident of achieving our goals for the full year.

As ever we rely upon the hard work and diligence of all our staff and I thank them for their continuing support and efforts.



CHRIS TOWNSEND
NON-EXECUTIVE CHAIRMAN
12 MAY 2008

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 29 FEBRUARY 2008

	Notes	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Revenue		3,678	4,040	7,442
Cost of sales		(2,074)	(2,455)	(4,450)
Gross profit		1,604	1,585	2,992
Other operating expenses		(1,384)	(1,919)	(2,659)
Profit/(loss) from operations before depreciation, amortisation and share based payments		220	(334)	333
Depreciation		(202)	(230)	(596)
Amortisation of intangibles		(23)	(27)	(56)
Share based payment costs		—	—	(8)
Operating (loss)		(5)	(591)	(327)
Finance income		22	6	18
Finance costs		(14)	(35)	(80)
Profit/(loss) before taxation		3	(620)	(389)
Income tax	2	—	—	42
Profit/(loss) for the period/year from continuing operations		3	(620)	(347)
Discontinued operations	3	—	(125)	(183)
Profit/(loss) for the period/year		3	(745)	(530)
Earnings/(loss) per share				
– basic (pence)	4	0.01	(2.56)	(1.82)
– diluted (pence)	4	0.01	(2.56)	(1.82)

There was no recognised income or expenditure other than the profit/(loss) for the period/year. Accordingly, no Statement of Recognised Income and Expenditure has been prepared.

CONSOLIDATED BALANCE SHEET AS AT 29 FEBRUARY 2008

	Notes	As at 29 February 2008 Unaudited £000's	As at 28 February 2007 Unaudited £000's	As at 31 August 2007 Unaudited £000's
Non-current assets				
Property, plant and equipment		1,754	2,047	1,701
Goodwill		334	334	334
Intangible assets		155	160	130
Investments		59	59	59
		2,302	2,600	2,224
Current assets				
Trade and other receivables		857	2,196	843
Cash and cash equivalents		1,280	980	1,883
		2,137	3,176	2,726
Total assets		4,439	5,776	4,950
Equity attributable to equity holders of the parent				
Share capital		74	73	74
Share premium reserve		4,293	4,288	4,293
Share based payment reserve		8	—	8
Revaluation reserve		217	217	217
Retained earnings		(3,766)	(3,984)	(3,769)
Total equity	6	826	594	823
Non-current liabilities				
Trade and other payables		1	43	2
Financial liabilities		441	471	485
Provisions	7	1,600	2,148	1,600
Deferred tax		67	65	67
		2,109	2,727	2,154
Current liabilities				
Financial liabilities		162	183	99
Trade and other payables		1,342	2,272	1,874
		1,504	2,455	1,973
Total liabilities		3,613	5,182	4,127
Total equity and liabilities		4,439	5,776	4,950

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 29 FEBRUARY 2008

	Notes	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Operating activities				
Cash generated from operations	5	(327)	(200)	307
Interest paid		(14)	(35)	(80)
Income taxes (paid)/received		—	—	—
Net cash generated from/(used in) operating activities		(341)	(235)	227
Investing activities				
Purchase of property, plant and equipment		(185)	(75)	(148)
Intangible assets purchases		(48)	—	—
Sale of business unit		—	—	532
Proceeds from sale of equipment		12	—	34
Interest received		22	6	18
Net cash generated from/(used in) investing activities		(199)	(69)	436
Financing activities				
Proceeds from the exercise of share options		—	—	6
Repayment of borrowings		(22)	(19)	(37)
Payment of finance lease liabilities		(41)	(48)	(100)
Net cash generated from/(used in) financing activities		(63)	(67)	(131)
Net increase/(decrease) in cash and cash equivalents		(603)	(371)	532
Cash and cash equivalents at beginning of the period		1,883	1,351	1,351
Cash and cash equivalents at the end of the period		1,280	980	1,883

NOTES TO THE INTERIM STATEMENT FOR THE SIX MONTHS ENDED 29 FEBRUARY 2008

1. BASIS OF PREPARATION

The group's interim results consolidate the results of the company and its subsidiary undertakings to 29 February 2008.

The interim financial information has been prepared on the basis of the accounting policies which will be adopted in the financial statements for the year ending 31 August 2008, including the adoption of International Financial Reporting Standards as endorsed by the EU ("IFRS").

The financial information contained in this interim statement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the financial statements prepared under UK GAAP for the year ended 31 August 2007 ("accounts") as amended for the adoption of IFRS. These accounts, upon which the auditors issued an unqualified opinion, which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The board of directors approved the interim report on 12 May 2008.

2. TAXATION

The tax charge is based on the current rate of UK Corporation tax applicable to the group and comprises:

	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
UK Corporation tax at 30%	—	—	—
Deferred tax	—	—	2
Adjustment in respect of prior periods	—	—	(44)
	—	—	(42)

3. DISCONTINUED OPERATIONS

Discontinued operations relates to the wholesale consumer broadband business, which was sold in May 2007.

	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Analysis of income statement result:			
Revenue	—	3,734	5,151
Expense	—	(3,859)	(5,743)
Loss before tax of discontinued operations	—	(125)	(592)
Income tax expense	—	—	—
Loss after tax of discontinued operations	—	(125)	(592)
Gain on sale of discontinued operations	—	—	409
Loss on discontinued operations	—	(125)	(183)
Analysis of cash flow movements:			
Operating	—	(85)	(538)
Investing	—	—	532

NOTES TO THE INTERIM STATEMENT FOR THE SIX MONTHS ENDED 29 FEBRUARY 2008 CONTINUED

4. EARNINGS/(LOSS) PER SHARE

	Six months ended 29 February 2008 Unaudited	Six months ended 28 February 2007 Unaudited	Year ended 31 August 2007 Unaudited
Earnings/(loss) per share			
– basic (pence)	0.01	(2.56)	(1.82)
– diluted (pence)	0.01	(2.56)	(1.82)
Earnings/(loss) per share			
– basic continuing operations (pence)	0.01	(2.13)	(1.19)
– basic discontinued operations (pence)	—	(0.43)	(0.63)

The calculation of diluted earnings per ordinary share is identical to that used for the basic loss per ordinary share for the six months ended 28 February 2007 and the year ended 31 August 2007. This is because the exercise of the options would have the effect of reducing the loss per ordinary share and is, therefore, not dilutive under the terms of IAS 33.

Earnings and the number of shares used in the calculations of earnings per share are set out below:

	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Earnings/(loss) for the period/year	3	(745)	(530)
Earnings/(loss) for the period/year			
– from continuing operations	3	(620)	(347)
– from discontinued operations	—	(125)	(183)

Weighted average number of shares used in the calculations of earnings/(loss) per share are set out below:

	Six months ended 29 February 2008 Unaudited No.	Six months ended 28 February 2007 Unaudited No.	Year ended 31 August 2007 Unaudited No.
For basic earnings per share	29,594,788	29,061,031	29,186,285
For diluted earnings per share	30,085,534	29,061,031	29,186,285

5. RECONCILIATION OF PROFIT/(LOSS) FROM OPERATIONS BEFORE DEPRECIATION, AMORTISATION AND SHARE BASED PAYMENTS TO NET CASH FLOW FROM OPERATIONS

	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Profit/(loss) from operations before depreciation, amortisation and share based payments	220	(334)	333
Adjustments for:			
Loss on disposal of equipment	—	—	5
Decrease in provisions	—	—	(548)
(Increase)/decrease in receivables	(14)	1,408	2,639
Increase/(decrease) in payables	(533)	(1,189)	(1,584)
Discontinued operations	—	(85)	(538)
Net cash inflow/(outflow) from operations	(327)	(200)	307

6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000's	Share premium £000's	Share based payment reserve £000's	Revaluation reserve £000's	Retained earnings £000's	Total £000's
Balance at 1 September 2007	74	4,293	8	217	(3,769)	823
Total recognised income and expense for the period	—	—	—	—	3	3
Balance at 29 February 2008	74	4,293	8	217	(3,766)	826
Balance at 1 September 2006	73	4,288	—	217	(3,239)	1,339
Total recognised income and expense for the period	—	—	—	—	(530)	(530)
Exercise of options	1	5	—	—	—	6
Share based compensation	—	—	8	—	—	8
Balance at 31 August 2007	74	4,293	8	217	(3,769)	823
Balance at 1 September 2006	73	4,288	—	217	(3,239)	1,339
Total recognised income and expense for the period	—	—	—	—	(745)	(745)
Balance at 28 February 2007	73	4,288	—	217	(3,984)	594

NOTES TO THE INTERIM STATEMENT FOR THE SIX MONTHS ENDED 29 FEBRUARY 2008 CONTINUED

7. PROVISIONS

A provision of £1,599,844 remains in relation to an onerous contract with a supplier.

	Six months ended 29 February 2008 Unaudited £000's	Six months ended 28 February 2007 Unaudited £000's	Year ended 31 August 2007 Unaudited £000's
Other provisions	1,600	2,148	1,600

INDEPENDENT REVIEW REPORT TO NETSERVICES PLC

INTRODUCTION

We have been instructed by the company to review the financial information set out on pages 4 to 10 and we have read the other information in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for and only for the company for the purpose of their interim statement and for no other purpose. We do not, therefore, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

DIRECTORS' RESPONSIBILITIES

The interim statement, 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 Statement in accordance with the AIM Market Rules which require that the accounting policies and presentation applied to the interim figures must be consistent with those that will be adopted in the company's annual accounts.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 disclosed accounting policies 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 and therefore provides a lower level of assurance. 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 29 February 2008.

BAKER TILLY UK AUDIT LLP

CHARTERED ACCOUNTANTS
BRAZENNOSE HOUSE
LINCOLN SQUARE
MANCHESTER M2 5BL
12 MAY 2008

CORPORATE INFORMATION

DIRECTORS

Christopher Peter Townsend (non-executive chairman)
Mark Richard Vickers (chief executive officer)
Ian David Winn ACA (finance director)
Alan Derek Jarvis (chief technical officer)
Philip Wedgwood (sales director)
Graham Richard Norfolk ACA (non-executive director)
Steven Michael Hartley ACA (non-executive director)

COMPANY SECRETARY

Jayne Stakes ACA

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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