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NETSERVICES PLC
(AIM:NSV)

Pre-Close Trading Update

Further to the Company's announcement on 31 August that it expected that the loss for the year would be significantly greater than market expectations this announcement is by way of a further update before the Company enters a close period.

Un-audited Results for the year ended 31 August 2006
The results for the year to 31 August 2006 are expected to be turnover of not less than £16m (2005: £11.1m) which will lead to an EBITDA loss of approximately £2.3m resulting in an expected loss before tax of £3m.

The launch of Voice4IP was delayed to enable us to modify the product set in light of feedback from beta test customers and demand from our target reseller base. In the second half we have successfully contracted 8 new Voice4IP resellers and are beginning to generate fee paying customers. Reported turnover for the period will be £160k. The delayed launch together with the cost of investment in staff and of the retaining the DataStream network acquired with WAN Services Ltd as a platform for Voice4IP, will contribute approximately £1.3m of the EBITDA loss referred to above.

In 2006 we have also initiated a marketing drive aimed at CPS resellers who, we expect, will have to diversify their business models to sell VOIP solutions in the future. This investment has cost approximately £170k between January and the year end and we have acquired 6 new CPS resellers.

The EBITDA loss referred to above includes an exceptional bad debt charge in respect of wholesale resellers of approximately £750k (2005: £111k). £225k of this was included in our half year results announced in May. The "free" broadband season arising immediately after our IPO has destroyed more reseller businesses than anyone in the sector appears to have anticipated, ourselves included. We believe there may be scope for recovery of some of the bad debt provisions in the future but cannot place reliance or expectation on this at this time.

Furthermore during the year our wholesale business consumed a disproportionate amount of management resource. Following the restructuring and the introduction of new approaches to credit and fair usage of the network we are now confident that it is now generating a positive contribution and cash flow to the Group. However we continue to explore the strategic options available to us as the provision of content and solutions via DSL begins to take shape in the market.

The result for the year also includes £200k of costs associated with the founder of the business which ceased in March and redundancy charges of £100k incurred in June when we restructured the business to incorporate Voice4IP within the trading business and 17 staff left the Group. This will result in annualised savings in basic salaries of £500k.

The acquisition of WAN Services Ltd in May 2005 brought a new sales team which we further developed to take advantage of the more complex solutions market and to prepare for the launch of Voice4IP. The first year of operating such a team has proven a costly investment and the new customer take up has been slower than anticipated, although in August we have acquired more than £500k of annualised new business at margins in excess of 30%. Management had targeted a monthly revenue run rate at 1 September 2006 of £2.5m whereas the actual current monthly rate is only £1.5m.

Board Changes
David Garner was appointed Sales Director in September 2005. This role is being divided and David has agreed to assume direct responsibility for our major customer accounts with immediate effect. Phil Wedgwood who until July was MD of Voice4IP Ltd has assumed responsibility for sales management and administration and will join the Board.

Outlook
Our strategy remains focused on leveraging our network to take advantage of opportunities in the more lucrative converging voice and data markets. We have started this new financial year with annualised revenues of £18m and we have launched new products and bundled solutions with higher margins than were achieved in 2005/06. Whilst we have confidence these new products will create profitable growth our short term focus is on achieving profit and positive cash generation.

In March the Company raised approximately £4m net of costs which has been used to fund much of the above. At the year end we had net cash of £1.3m. We restructured and reduced our cost base in July and anticipate being EBITDA positive from October 2006 and to be cash flow positive from the beginning of 2007.

We will provide a further update on trading and progress at the time of publication of the Company's audited results in early November.

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