

**NetServices plc**  
**18 November 2008**

**For Immediate Release**  
**18 November 2008**

## **PRELIMINARY RESULTS ANNOUNCEMENT**

**For the year ended 31 August 2008**

**NetServices plc, (AIM:NSV) the specialist provider of converged business communications, announces its results for the year ended 31 August 2008.**

### **Highlights**

- NetServices achieved market expectation of becoming profitable in full-year
- EBITDA (profit from operations before interest, tax, depreciation, amortisation and share-based payment costs) £0.5m (2007: £0.3m)
- Profit before tax £0.05m (2007: loss £0.53m)
- Core network investment of £0.4m to provide future scalability and efficiency
- BT endorsement of NetServices' QoS IPStream service
- Gross period end cash balances £1.3m

Mark Vickers, Chief Executive Officer said:

"We are pleased with our full-year performance as the Group moved into profit for the first time as a quoted company. Our focus in the coming 12 months will be to leverage the relationships we have established during the past year to drive revenues in our core business of managed services.

We are excited by the appointment as Sales Director of Paul Foley, who has a demonstrable track record in building successful channel models within O2 and Cable & Wireless, and will significantly add to the Group's ability to secure new partnerships.

The board remains confident that these changes and strategies will ultimately prove successful; however it acknowledges the short term risks to both revenue growth and profitability growth from the current dependence upon direct customers. The board will in the meantime keep under review all opportunities which present themselves to maximise shareholder value."

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### **CHAIRMAN'S STATEMENT**

I am pleased to report the results for NetServices plc for the year ended 31 August 2008, our first annual report under International Financial Reporting Standards ("IFRS"), and it is particularly pleasing that I can report a maiden profit as a quoted company.

Turnover for the year was £7.1m (2007: £7.4m) which reflects the absence of a contribution from wholesale consumer broadband for the first time in many years. As a consequence of taking a number of strategic decisions in 2007, the group generated a gross profit of £3.3m (2007: £3.0m), which in turn generated an EBITDA of £0.5m (2007: £0.3m). Profit before tax was £0.05m (2007: loss £0.53m). The group had gross cash balances of £1.3m at the year end (2007: £1.9m), which were in line with management expectations and the movement is explained further in the business review. These financial results give clear evidence of the effectiveness in taking the necessary operational and strategic decisions that were required to deal with changes in the market and legislation.

As well as re-engineering the operational costs of the business to deliver greater margin and profit we have also been developing the delivery capability and reach of the business to ensure it is in a stronger position moving forward. I outline some of the steps we have taken below in more detail.

The group has a legacy of knowledge and innovation in the delivery of DSL connectivity and Multi Protocol Label Switching ("MPLS") networks. We have continued to develop that expertise during the past financial year culminating in our ability to deliver quality of service ("QoS") over the cheapest connectivity product – BT IPStream. In January 2008 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. This is important because it allows us to extend the reach of converged networks to remote offices and home workers at a competitive price point. In addition, with continuing delays being experienced with the roll out of the 21CN network, we retain this competitive edge.

The group has also continued to innovate in the delivery of other forms of connectivity, including direct data access over mobile (SIM integration technology). The group has successfully used mobile technology for an existing customer to deliver a "leased line substitute" and is currently investigating the commercial development of this product. The board hopes to be able to report further on this in due course and are particularly excited about the opportunities this hybrid technology could bring.

As indicated at the time of the interim results we have now been successful in becoming a Cisco Select Partner, the first part of a process which the board hopes and expects will lead to further Cisco accreditation, particularly in the area of managed services.

We completed the investment in our core network during the second half of the last financial year. We invested approximately £0.4m in upgrading core hardware and monitoring equipment which provides significant future scalability. This investment has added to our already strong reputation in MPLS networks and has provided us with the capacity to offer increasing prioritised traffic types to traverse our network. We have been particularly keen to leverage this capability in the field of video, and have been working closely with a video conferencing partner in the creation of an end to end managed service.

Post the year end, Phil Wedgwood, sales director stepped down from the board and left the company on 2 September 2008. We announced the appointment of Paul Foley to the board as sales director on 18 November 2008. Paul has a proven track record of building successful channel models with O<sub>2</sub> and Cable & Wireless.

The group's strategy during the last financial year was to secure "trusted" partners through whom we would sell our services and which, we anticipated, would shorten the sales cycle. We have continued to refine and adapt this strategy, however we currently remain primarily focused in terms of revenues on our "direct" customers. The board believes that Paul's appointment, together with our product road map will enable us to achieve more success with "trusted" partners in forthcoming periods.

The current uncertainty in the economy, and the impending recession impact upon all levels of activity. Whilst remaining confident in the products and managed services it offers, the board does not believe that the group will be entirely insulated from the effects of any economic downturn. In the short term the longer sales cycles referred to above and continued reliance upon direct revenues will have an impact upon both revenue growth and profitability growth. However the board believes that management's experience in dealing with adversity will stand it in good stead, and enable the business to move forward.

Finally I would like to thank all staff at NetServices for their efforts and diligence, and I feel that this positive result reflects their hard work through 2008.

**CHRIS TOWNSEND**  
**CHAIRMAN**  
18 NOVEMBER 2008

## **BUSINESS REVIEW**

### **INTRODUCTION**

NetServices' aim is to deliver innovative converged network infrastructure solutions which it does through a combination of its own core MPLS network, diverse connectivity types and its legacy of knowledge and experience in the sector. NetServices aims to provide a "peerless" managed service bringing simplicity and increased business performance to its customers – whether those customers have been secured by the group or through its network of resellers.

### **DEVELOPMENTS IN THE MARKET**

The last year and current period have been characterised by continuing rapid change – both technological and economic.

### **TECHNOLOGICAL DEVELOPMENTS**

The trend for increased bandwidth connections has continued, however delays in the roll out of BT's 21CN network have reduced the scale and reach of these connections. These delays have also resulted in a delay in the QoS services that were to be rolled out over this network. This has meant that there remains a competitive niche for the NetServices QoS IPStream product to cost effectively connect and manage the converged data needs of home workers and remote offices. The group was pleased to report that during the last financial year BT Test Laboratories, Martelsham confirmed the efficacy of this product.

The distinction between fixed line and mobile communications grows ever more blurred, with considerable numbers of users, predominantly consumers, now using mobile broadband. The push into the corporate arena and over a virtual private network ("VPN") will come as mobile operators further increase capacity – NetServices already provides this service to one of its customers, and is looking to develop this connectivity option and bring to market during the next twelve months.

The board believes video conferencing may have finally reached its tipping point after years of false dawns. This is backed up by the marketing effort Cisco is making in its "telepresence" products and the launch of "consumer lite" hardware in the US. In order for the video conference experience to be optimised the video packets (i.e. the data transmission) need to be over an efficient, capable, QoS enabled MPLS network – hence the need for the group's managed services.

Finally there is a rush towards the provision of "managed services" in the technology space. In a nutshell these managed services are characterised by lower costs, reduced set up costs, a per seat rental model rather than an outright ownership model and applications hosted, managed and administered by someone other than the in-house, IT function. The sector of the market most receptive to these services is the SME sector. NetServices believes the "glue" that holds all this together is the network, or more precisely an MPLS network, and management is currently seeking to position the business in this space. One of the ways the group is seeking to do this is through undertaking the Cisco Managed Service Channel Partner accreditation programme. The board believes that a positive outcome from this programme would be an enabler to access the Cisco base of Select SMB resellers.

#### **ECONOMIC DEVELOPMENTS**

The recent deterioration in the economic outlook will undoubtedly lead to a greater focus on costs. This creates opportunities in two ways:

- corporates look to reduce travel and working costs by increasing the level of video conferencing and home working; and
- legacy networks based on expensive data technologies are reviewed for cost and efficiency.

However a feature of the deepening economic gloom is that sales cycles do tend to be lengthened and pro-active decision making takes longer.

The board acknowledges that, now more than ever, NetServices will have to work ever harder to secure the IT spend of corporates and therefore it is imperative that it selects the right partners and opportunities to pursue.

#### **RESULTS FOR THE YEAR**

The past year has been one of continued development, although perhaps not as quickly as the board would have liked. It also represented the group's first year of full trading without any contribution from the wholesale consumer broadband business, the first for over seven years, and the group's first full year trading as a truly focused converged network supplier.

Revenue for the year was £7.1m (2007: £7.4m) with revenues from converged solutions 10% higher than 2007. Particular highlights and achievements saw the group complete the network upgrade for a large professional services company to time and budget, implement and deploy a hosted IP telephony solution for a 50 person office inside seven days, when the norm is usually many weeks, and re-sign a £0.5m network contract in the public sector for an organisation with sites in the UK and mainland Europe.

Gross profit for the year was £3.3m (2007: £3.0m), representing a gross margin of 46%. The board is particularly pleased to have maintained and improved margin during the current financial year – however there is recognition that the future strategy and changing mix of business will reduce margins in future periods.

Management has continued to demonstrate its ability to manage and control overhead costs in the business, which is of particular importance given the uncertain economic climate. The normalised current overhead base is £0.23m per month which compares to £0.24m at August 2007. The disposal of the wholesale consumer broadband business and focus on higher value converged networks, provided to good "credit" quality corporates, means that the group was able to significantly reduce bad debt charges in the year. In addition, diligence in pursuing delinquent accounts resulted in the group recovering £0.1m against debts previously fully provided. Management remains vigilant regarding the level of credit quality of the group's trade receivables, and will act proactively to ensure that any bad debt charges are minimised.

The group generated EBITDA of £0.5m (2007: £0.3m), which in turn produced a profit before tax of £0.05m (2007: loss £0.53m). This was in line with management's expectations and the board is particularly pleased to report a maiden profit as a quoted company.

#### **BALANCE SHEET AND WORKING CAPITAL**

We reported last year that we would be investing in our core network in order to increase capacity, efficiency and efficacy. This investment and upgrade was completed during the year thereby expanding the capacity of the group's core network by a factor of more than ten times. This investment cost £0.4m and was funded through a combination of finance (50% of which was interest free) and half through the group's own resources.

Gross cash balances at the year end were £1.3m (2007: £1.9m). The reduction in cash balances resulted from the investment referred to above, a £0.4m cash outflow relating to the reversal of network infrastructure supplier recharges no longer charged to 186k and a £0.4m cash outflow relating to under-billed, but accrued, services relating to 2007.

#### **BOARD CHANGES**

During the last twelve months there have been a number of changes in composition of the board. Alan Jarvis was welcomed to the board on 2 January 2008 as chief technical officer and Paul Foley on 18 November 2008 as sales director. Phil Wedgwood left the board and the group on 2 September 2008.

#### **OUTLOOK**

The group's focus for the next twelve months will be building and developing the relationships established with Cisco, the group's key partners and key suppliers and generating revenue and profitability from those relationships. In doing this the group intends to capitalise on the undoubted technical skills and knowledge it possesses within the business.

The sales force has recently been revitalised by a number of new recruits, who have contacts and expertise within the industry and channel network.

The board remains confident that these changes and strategies will ultimately prove successful; however it acknowledges the short term risks to both revenue growth and profitability growth from the current dependence upon direct customers. The board will in the meantime keep under review all opportunities which present themselves to maximise shareholder value.

We look forward to updating the markets and shareholders during the course of the year as the uncertain economic climate stabilises and the group succeeds in delivering its strategic objectives.

**MARK VICKERS**  
**CHIEF EXECUTIVE OFFICER**  
 18 NOVEMBER 2008

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2008

	Year ended 31 August 2008 £	Year ended 31 August 2007 £
<b>REVENUE</b>	<b>7,145,442</b>	7,441,569
Cost of sales	<b>3,835,791</b>	4,450,154
<b>GROSS PROFIT</b>	<b>3,309,651</b>	2,991,415
Other operating expenses	<b>2,810,467</b>	2,713,136
<b>PROFIT FROM OPERATIONS BEFORE DEPRECIATION, AMORTISATION AND SHARE-BASED PAYMENT COSTS</b>	<b>499,184</b>	278,279
Amortisation of intangibles	<b>64,062</b>	56,571
Depreciation	<b>369,242</b>	595,435
Share-based payment costs	—	8,284
<b>PROFIT/(LOSS) FROM OPERATIONS</b>	<b>65,880</b>	(382,011)
Finance income	<b>36,359</b>	18,319
Finance costs	<b>(52,923)</b>	(79,969)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>49,316</b>	(443,661)
Income tax expense	—	(42,112)
<b>PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>49,316</b>	(401,549)
Discontinued operations	—	(128,566)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>49,316</b>	(530,115)
<b>EARNINGS/(LOSS) PER SHARE</b>		
– basic (p)	<b>0.17</b>	(1.82)
– diluted (p)	<b>0.16</b>	(1.82)

No separate statement of total recognised income and expense is presented as all such income and expenses have been dealt with in the consolidated income statement.

## CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2008

	As at 31 August 2008 £	As at 31 August 2007 £
<b>Non-current assets</b>		
Property, plant and equipment	<b>1,548,193</b>	1,700,958
Goodwill	<b>333,983</b>	333,983
Intangibles	<b>182,798</b>	129,918
Other investments	<b>58,667</b>	58,667
	<b>2,123,641</b>	2,223,526
<b>Current assets</b>		
Trade and other receivables	<b>844,234</b>	843,066
Cash and cash equivalents	<b>1,253,737</b>	1,883,120
	<b>2,097,971</b>	2,726,186
<b>TOTAL ASSETS</b>	<b>4,221,612</b>	4,949,712
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to the equity holders of the parent</b>		
Share capital	<b>73,992</b>	73,962
Share premium reserve	<b>4,293,246</b>	4,293,126
Share-based payment reserve	<b>8,284</b>	8,284
Revaluation reserve	<b>151,650</b>	151,650
Retained earnings	<b>(3,654,605)</b>	(3,703,921)
	<b>872,567</b>	823,101
<b>Non-current liabilities</b>		
Trade and other payables	<b>1,343</b>	1,343
Financial liabilities	<b>508,107</b>	485,275

Provisions	1,519,844	1,599,844
Deferred tax	66,827	66,827
	<u>2,096,121</u>	<u>2,153,289</u>
<b>Current liabilities</b>		
Financial liabilities	150,187	99,381
Trade and other payables	1,102,737	1,873,941
	<u>1,252,924</u>	<u>1,973,322</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>4,221,612</u>	<u>4,949,712</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 AUGUST 2008

	Share capital	Share premium	Share-based payment reserve	Revaluation reserve	Retained earnings	Total
	£	£	£	£	£	£
<b>BALANCE AT 1 SEPTEMBER 2006</b>	72,573	4,287,725	—	151,650	(3,173,806)	1,338,142
Total recognised income and expense for the period	—	—	—	—	(530,115)	(530,115)
Exercise of options	1,389	5,401	—	—	—	6,790
Share-based compensation	—	—	8,284	—	—	8,284
<b>BALANCE AT 31 AUGUST 2007</b>	73,962	4,293,126	8,284	151,650	(3,703,921)	823,101
Total recognised income and expense for the period	—	—	—	—	49,316	49,316
Exercise of options	30	120	—	—	—	150
Share-based compensation	—	—	—	—	—	—
<b>BALANCE AT 31 AUGUST 2008</b>	<u>73,992</u>	<u>4,293,246</u>	<u>8,284</u>	<u>151,650</u>	<u>(3,654,605)</u>	<u>872,567</u>

The revaluation reserve relates to the revaluation of the group's properties on transition to IFRS, net of the associated deferred tax liability.

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2008

	Year ended 31 August 2008 £	Year ended 31 August 2007 £
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash (used)/generated from operations	(317,525)	305,644
Finance cost	(52,923)	(79,969)
<b>NET CASH (USED)/GENERATED FROM OPERATING ACTIVITIES</b>	<u>(370,448)</u>	<u>225,675</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(79,198)	(147,889)
Purchase of intangible assets	(116,942)	—
Proceeds from sale of equipment	47,293	34,500
Sale of business unit	—	531,671
Finance income	36,359	18,319
<b>NET CASH (USED)/GENERATED IN INVESTING ACTIVITIES</b>	<u>(112,488)</u>	<u>436,601</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from the exercise of share options	150	6,790
Repayment of long term borrowings	(46,596)	(37,041)
Payment of finance lease liabilities	(100,001)	(99,554)
<b>CASH (USED) in FINANCING ACTIVITIES</b>	<u>(146,447)</u>	<u>(129,805)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(629,383)</u>	<u>532,471</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>1,883,120</u>	<u>1,350,649</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>1,253,737</u>	<u>1,883,120</u>

### Notes:

#### 1. ACCOUNTING POLICIES

##### BASIS OF ACCOUNTING

NetServices plc (the "company") is a company incorporated and domiciled in the UK.

NetServices plc's consolidated financial statements were prepared in accordance with UK GAAP for the year ended 31 August 2007. For the year ended 31 August 2008 the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU ("IFRS") for the first time and the Companies Act 1985. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 7.

In relation to IFRS 1 "First-time Adoption of International Financial Reporting Standards", the date of transition for 2008 financial statements was 1 September 2006. The comparative figures in respect of 31 August 2007 have been restated to reflect changes in accounting policies as a result of adoption of IFRS.

Information in the Preliminary Results does not constitute statutory accounts of the Group within the meaning of Section 240 of the Companies Act 1985. The figures for the year ended 31 August 2008 are audited.

Statutory accounts for the year ended 31 August 2007, which were prepared under accounting practices generally accepted in the UK, have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 (2) or (3) of the Companies Act 1985.

### TRANSITION TO IFRS

These consolidated financial statements show the results for the year ended 31 August 2008. The results for the year ended 31 August 2007 have been extracted from the financial statements for that year and have been adjusted for the effects of changes in accounting policies on transition to IFRS.

IFRS 1 "First Time Adoption of International Financial Reporting Standards" sets out the procedures that the group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements.

The group has identified its IFRS accounting policies as at 31 August 2008 and has applied these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 September 2006. This standard provides a number of optional exemptions to this general principle.

The main changes in the basis of preparation between IFRS and UK GAAP are summarised below:

- in accordance with the requirements of IFRS 3 "Business Combinations", goodwill has been frozen at its brought forward net book value at the date of transition, and amortisation charged under UK GAAP for the period ended 31 August 2007 has been reversed;
- at the date of transition the long leasehold properties of the group have been revalued, based on market value provided by an independent surveyor. A deferred tax liability has been recognised on the revaluation, and in the period after 1 September 2006 there has been an increase in the depreciation charged against long leasehold properties based on the revalued amount; and
- adoption of IFRS has also resulted in the reclassification of certain non-current assets between property, plant and equipment and intangible assets.

### STANDARDS AND INTERPRETATIONS NOT YET APPLIED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 August 2008, and have not been applied in preparing these consolidated financial statements. The applicable standards and interpretations are listed below:

Standard or interpretation		Applicable*
IAS 1	"Presentation of Financial Statements (revised 2007)"	1 January 2009
IAS 23	"Borrowing Costs"	1 January 2009
IAS 27	"Consolidated and Separate Financial Statements (revised 2007)"	1 July 2009
IFRS 1 (amended)	"First Time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate"	1 January 2009
IFRS 2 (amended)	"Share-based Payment – Vesting Conditions and Cancellation"	1 January 2009
IFRS 3	"Business Combinations (revised 2008)"	1 July 2009
IFRS 8	"Operating Segments"	1 January 2009

\* applicable to accounting periods beginning on or after the following dates.

The directors consider that the adoption of these standards and interpretations in the future will have no material financial impact on the consolidated financial statements.

### GOING CONCERN

On the basis of the financial projections and facilities currently available to the group, the directors consider it appropriate to prepare the financial statements on a going concern basis.

### BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the purchase method and goodwill is reviewed annually for impairment. The results of companies acquired or disposed of are included in the income statement after or up to the date that control passes, respectively.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### PROPERTY, PLANT AND EQUIPMENT

Plant and equipment are stated at historic cost less accumulated depreciation and any recognised impairment losses. At the date of transition to IFRS, the group elected to revalue its property to fair value and to consider this value as the deemed cost at the date of transition. The valuation was based on market value provided by an independent surveyor.

Depreciation is charged so as to write off the cost of assets, other than land, to their estimated residual values over their estimated useful lives using the straight-line method on the following bases:

Long leasehold property	- 2%
Fixtures and fittings	- 20%
Plant and machinery	- 20%
Motor vehicles	- 20%
Computer equipment	- 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### **GOODWILL**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Upon the acquisition of subsidiaries, goodwill is separately disclosed. Goodwill on acquisition of associates and jointly controlled entities is included in investment in associates and jointly controlled entities.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit to which goodwill has been allocated. The "value in use" calculation requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the amount previously calculated under UK GAAP subject to being tested for impairment at that date.

### **OTHER INTANGIBLE ASSETS**

Research and development is capitalised as an intangible asset at the point a commercial value is quantifiable as the result of developing a new product or service.

Software is capitalised upon purchase at cost.

Internally generated goodwill is not capitalised as an intangible asset.

Amortisation is calculated to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Research and development	– over the life of the associated product or service
Software	– over five years

### **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT ("PPE") AND INTANGIBLE ASSETS EXCLUDING GOODWILL**

At each balance sheet date, the group reviews the carrying amounts of PPE and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An intangible asset with an indefinite useful life is tested for impairment annually and also whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash in hand, deposits repayable on demand, short term deposits and restricted deposits.

### **FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

## **TRADE RECEIVABLES**

Trade receivables do not carry any interest and are initially stated at fair value, and are subsequently reassessed when there is objective evidence of impairment.

## **FINANCIAL LIABILITIES AND EQUITY**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Interest associated with financial liabilities is recognised in the income statement on an accruals basis over the term of the instrument using the effective interest method.

## **TRADE PAYABLES**

Trade payables are classified as 'other liabilities' in accordance with IAS 39. They are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost.

## **EQUITY INSTRUMENTS**

Equity instruments issued by the company are recorded at the fair value, net of direct issue costs.

## **PROVISIONS**

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Provision is held against an onerous contract entered into by a subsidiary company. The provision is based upon the expected expenditure under the contract against the contractual commitment across the remaining life of the onerous contract. The provision held is reviewed on a regular basis and adjusted to reflect current expected expenditure.

## **LEASING**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

## **REVENUE RECOGNITION**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax and other sales related taxes. Sales of goods are recognised when goods are delivered to the customer, and installation revenue is recognised when the customer is connected to the network.

Other contracted income, including customer rental, is recognised over the contract period in proportion to the value of the service provided.

Deferred income represents that portion of rental fees paid by customers relating to a future period.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## **SHARE-BASED PAYMENTS**

The group has applied the requirements of IFRS 2 "Share-based Payment".

The group issues equity-settled share-based awards to its employees. Equity-settled share-based awards are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based awards is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model. The expected life used in the model is based upon exercise restrictions and expected volatility is based upon historical volatility over the expected life of the scheme.

## **TAXATION**

The tax expense represents the sum of the current tax and the deferred tax elements.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Temporary differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is calculated at the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- goodwill has been tested for impairment by comparing the amount of goodwill attributable to a cash generating unit against the expected forecast cash flows to be generated in the future by that unit discounted at an appropriate rate of interest ;
- the fair value of share-based awards is measured using the Black-Scholes model which inherently makes use of significant estimates and assumptions concerning the future applied by the directors ;
- deferred tax assets and liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled, and estimates as to the timing of those future events and as to the future tax rates that will be applicable; and
- provisions are held to the extent that directors feel contractual commitments against onerous contracts will not be met

## 2. REVENUE

The group's revenue and profit before taxation were all derived from its principal activity which is the provision of converged networking solutions. 92.0% of the turnover (2007: 96.5%) was attributable to the United Kingdom. As the level of trade outside the United Kingdom was immaterial an analysis of the income, result and net assets by geographical area has not been disclosed. On this basis the directors consider that the group has only one business segment.

## 3. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated after charging:

	2008	2007
	£	£
Depreciation of owned PPE	<b>332,452</b>	549,383
Depreciation of assets held under hire purchase agreements	<b>36,790</b>	46,052
Loss on disposal of PPE	<b>35,663</b>	5,475
Auditors' remuneration		
– as auditors of the parent company and group consolidated financial statements	<b>24,950</b>	21,600
– audit of subsidiary company financial statements	<b>8,900</b>	11,500
– interim review	<b>8,900</b>	8,600
– Corporation tax compliance	<b>8,140</b>	7,350
– other	<b>2,500</b>	2,105
Operating lease costs		
– land and buildings	<b>58,298</b>	142,183
Research and development	—	121,274
Amortisation of internally generated assets	<b>44,683</b>	43,201
Amortisation of purchased software	<b>19,379</b>	13,370
Share-based payment costs	—	8,284
Reduction in provision on onerous contracts	<b>(80,000)</b>	(523,375)

## 4. DISCONTINUED OPERATIONS

Discontinued operations relates to the wholesale consumer broadband business, which was sold in May 2007. The results for 2008 relate entirely to continuing operations

	2008	2007
	£	£
ANALYSIS OF INCOME STATEMENT		
Revenue	-	5,151,037
Expense	-	5,688,778
LOSS BEFORE TAX ON DISCONTINUED OPERATIONS	-	(537,741)
Income Tax expense	-	-
LOSS AFTER TAX ON DISCONTINUED OPERATIONS	-	(537,741)
Gain on sale of discontinued operations	-	409,175
LOSS ON DISCONTINUED OPERATIONS	-	(128,566)
ANALYSIS OF CASH FLOW MOVEMENTS		
Operating	-	(483,574)

Investing	-	531,671
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## 5. EARNINGS/(LOSS) PER SHARE

	2008 (p)	2007 (p)
Earnings/(loss) per share		
– basic	0.17	(1.82)
– diluted	0.16	(1.82)
Earnings/(loss) per share		
– basic continuing operations	0.17	(1.38)
– basic discontinued operations	—	(0.44)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share for 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:

	2008 £	2007 £
Earnings/(loss) for the year	49,316	(530,115)
Earnings/(loss) for the year		
– from continuing operations	49,316	(401,549)
– from discontinued operations	—	(128,566)

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

	2008 No.	2007 No.
For basic earnings per share	29,595,703	29,186,285
Effect of dilutive potential ordinary shares		
– share options	459,420	—
For diluted earnings per share	30,055,123	29,186,285

## 6. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2008 £	2007 £
Profit/(loss) before tax	49,316	(443,661)
Adjustments for:		
Depreciation and amortisation	433,304	652,006
Share-based payment costs	—	8,284
Loss on disposal of equipment	35,663	5,475
Finance income	(36,359)	(18,319)
Finance costs	52,923	79,969
Operating profit before changes in working capital and provisions	534,847	283,754
Adjustments for:		
Decrease in provisions	(80,000)	(548,375)
Decrease in receivables	(1,168)	2,638,623
Decrease in payables	(771,204)	(1,584,784)
Discontinued operations	—	(483,574)
Net cash outflow (used in)/from operating activities	(317,525)	305,644

## 7. EXPLANATION OF TRANSITION TO IFRS

These are the group's first consolidated annual financial statements that have been prepared under IFRS. An explanation of how the transition from UK GAAP to IFRS has affected the group's financial position and financial performance is set out below:

### CONSOLIDATED BALANCE SHEET RECONCILIATION AT 1 SEPTEMBER 2006 (TRANSITION DATE)

	UK GAAP in IFRS format £	Property note 1 £	Goodwill note 2 £	Intangibles note 3 £	Reported under IFRS £
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	2,092,853	216,643	—	(66,850)	2,242,646
Goodwill	333,983	—	—	—	333,983
Intangibles	119,640	—	—	66,850	186,490
Other investments	59,357	—	—	—	59,357
	2,605,833	216,643	—	—	2,822,476
<b>Current assets</b>					
Trade and other receivables	3,604,183	—	—	—	3,604,183
Cash and cash equivalents	1,350,649	—	—	—	1,350,649
	4,954,832	—	—	—	4,954,832

<b>TOTAL ASSETS</b>	7,560,665	216,643	—	—	7,777,308
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to the equity holders of the parent</b>					
Share capital	72,573	—	—	—	72,573
Share premium reserve	4,287,725	—	—	—	4,287,725
Share-based payment reserve	—	—	—	—	—
Revaluation reserve	—	151,650	—	—	151,650
Retained earnings	(3,173,806)	—	—	—	(3,173,806)
	1,186,492	151,650	—	—	1,338,142
<b>Non-current liabilities</b>					
Trade and other payables	43,456	—	—	—	43,456
Financial liabilities	523,220	—	—	—	523,220
Provisions	2,148,219	—	—	—	2,148,219
Deferred tax	—	64,993	—	—	64,993
	2,714,895	64,993	—	—	2,779,888
<b>Current liabilities</b>					
Financial liabilities	198,030	—	—	—	198,030
Trade and other payables	3,461,248	—	—	—	3,461,248
	3,659,278	—	—	—	3,659,278
<b>TOTAL EQUITY AND LIABILITIES</b>	7,560,665	216,643	—	—	7,777,308

#### CONSOLIDATED BALANCE SHEET RECONCILIATION AT 31 AUGUST 2007

	UK GAAP in IFRS format £	Property note 1 £	Goodwill note 2 £	Intangibles note 3 £	Reported under IFRS £
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	1,541,379	213,059	—	(53,480)	1,700,958
Goodwill	295,447	—	38,536	—	333,983
Intangibles	76,438	—	—	53,480	129,918
Other investments	58,667	—	—	—	58,667
	1,971,931	213,059	38,536	—	2,223,526
<b>Current assets</b>					
Trade and other receivables	843,066	—	—	—	843,066
Cash and cash equivalents	1,883,120	—	—	—	1,883,120
	2,726,186	—	—	—	2,726,186
<b>TOTAL ASSETS</b>	4,698,117	213,059	38,536	—	4,949,712
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to the equity holders of the parent</b>					
Share capital	73,962	—	—	—	73,962
Share premium reserve	4,293,126	—	—	—	4,293,126
Share-based payment reserve	8,284	—	—	—	8,284
Revaluation reserve	—	151,650	—	—	151,650
Retained earnings	(3,738,873)	(3,584)	38,536	—	(3,703,921)
	636,499	148,066	38,536	—	823,101
<b>Non-current liabilities</b>					
Trade and other payables	1,343	—	—	—	1,343
Financial liabilities	485,275	—	—	—	485,275
Provisions	1,599,844	—	—	—	1,599,844
Deferred tax	1,834	64,993	—	—	66,827
	2,088,296	64,993	—	—	2,153,289
<b>Current liabilities</b>					
Financial liabilities	99,381	—	—	—	99,381
Trade and other payables	1,873,941	—	—	—	1,873,941
	1,973,322	—	—	—	1,973,322
<b>TOTAL EQUITY AND LIABILITIES</b>	4,698,117	213,059	38,536	—	4,949,712

#### RECONCILIATION OF INCOME STATEMENT FOR PERIOD ENDED 31 AUGUST 2007

	UK GAAP in IFRS format £	Property note 1 £	Goodwill note 2 £	Intangibles note 3 £	Discontinued operations £	Reported under IFRS £
<b>REVENUE</b>	12,592,606	—	—	—	(5,151,037)	7,441,569
Cost of sales	9,186,568	—	—	—	(4,736,414)	4,450,154
<b>GROSS PROFIT</b>	3,406,038	—	—	—	(414,623)	2,991,415
Other operating expenses	3,202,158	—	—	—	(489,022)	2,713,136
<b>PROFIT FROM OPERATIONS BEFORE DEPRECIATION, AMORTISATION AND SHARE-BASED PAYMENT COSTS</b>	203,880	—	—	—	74,399	278,279

Amortisation of intangibles	81,737	—	(38,536)	13,370	—	56,571
Depreciation	659,388	3,584	—	(13,370)	(54,167)	595,435
Share-based payment costs	8,284	—	—	—	—	8,284
<b>OPERATING (LOSS)</b>	<b>(545,529)</b>	<b>(3,584)</b>	<b>38,536</b>	<b>—</b>	<b>128,566</b>	<b>(382,011)</b>
Finance income	18,319	—	—	—	—	18,319
Finance costs	(79,969)	—	—	—	—	(79,969)
<b>(LOSS) BEFORE TAX</b>	<b>(607,179)</b>	<b>(3,584)</b>	<b>38,536</b>	<b>—</b>	<b>128,566</b>	<b>(443,661)</b>
Income tax expense	(42,112)	—	—	—	—	(42,112)
<b>(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>(565,067)</b>	<b>(3,584)</b>	<b>38,536</b>	<b>—</b>	<b>128,566</b>	<b>(401,549)</b>
Discontinued	—	—	—	—	(128,566)	(128,566)
<b>(LOSS) FOR THE PERIOD</b>	<b>(565,067)</b>	<b>(3,584)</b>	<b>38,536</b>	<b>—</b>	<b>—</b>	<b>(530,115)</b>

#### Note 1 Property (IFRS 1)

At the date of transition to IFRS, the group elected to revalue its property to fair value and to consider this value as the deemed cost at the date of transition. The valuation was based on market value provided by an independent surveyor. This also resulted in the creation of a deferred tax liability which has been recognised, and an increase in the depreciation charge after 1 September 2006.

#### Note 2 Goodwill (IFRS 1, IAS 36 and IAS 38)

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the amount previously calculated under UK GAAP subject to being tested for impairment at that date. In prior periods, goodwill amortisation will have been charged leading to lower net income, the amortisation charged post 1 September 2006 has been reversed.

#### Note 3 Intangibles (IAS 38)

Software assets included under “tangible assets”, in accordance with UK GAAP, have been reclassified from the date of transition to “intangible assets”. This has also resulted in the reclassification of depreciation on these assets from “depreciation” to “amortisation of intangibles”.

#### Note 4 Cash flow statement

The transition adjustments referred to above have no impact on the cash flow statement, and therefore there is no requirement for a reconciliation between UK GAAP and IFRS.

## 8. ANNUAL REPORT

The board of directors of NetServices plc approved the Preliminary Results on 18 November 2008.

The annual report will be sent to shareholders on 26 November 2008. Additional copies will be available to the public free of charge, from the Company's registered office at Waters Edge Business Park, 31 Modwen Road, Salford, Manchester M5 3EZ and from the Company's website at [www.netservicesplc.com](http://www.netservicesplc.com).