

**netSERVICES**

NETSERVICES PLC

INTERIM REPORT 2009



**alltogether® Business**

# CORPORATE STATEMENT

**NETSERVICES** aims to be the provider of choice for innovative converged networking solutions in the UK.



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## HIGHLIGHTS

- Revenue of £3.19m (2008: £3.68m)

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- Gross profit of £1.37m (2008: £1.60m)

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- Gross profit margin of 43% (2008: 44%)

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- EBITDA\* before non-recurring items of £0.14m (2008: £0.22m)

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- Loss before tax of £0.42m (2008: £0.003m profit)

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- Cash in hand at end of period of £0.81m (2008: £1.28m)

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- Achieved accreditation as a CISCO Managed Services Channel Partner

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\* EBITDA = profit from operations before interest, tax, depreciation, amortisation and share-based payment costs.

## CHAIRMAN'S STATEMENT

“Against the backdrop of one of the most challenging economic periods in living memory we have continued to pursue our strategy of focusing on managed services. Our success in achieving accreditation as a CISCO Managed Services Channel Partner, combined with recent contract wins provides encouragement.”



### OVERVIEW

I am pleased to announce the results for the six months ended 28 February 2009, one of the most challenging economic periods in living memory, and to provide an update on recent developments within the business.

Revenue for the first half of the year was £3.19m (2008: £3.68m), producing a gross profit of £1.37m (2008: £1.60m). A continued focus on tight cost control enabled the Group to generate earnings before interest, tax, depreciation and amortisation (“EBITDA”) and before non-recurring items of £0.14m (2008: £0.22m). The Group incurred non-recurring items relating to a staff re-organisation, the write off of legacy networking equipment and professional fees relating to a strategic review. The impact of these items resulted in a loss before tax of £0.42m (2008: £0.003m profit).

I am pleased that our EBITDA before non-recurring items continues to demonstrate the underlying viability of our business model, whilst acknowledging disappointment that we have posted a loss for the period, which was primarily due to a number of identifiable one-off non-recurring items. However, our success in achieving accreditation as a CISCO Managed Services Channel Partner (“MSCP”) in managed connectivity and security, combined with recent contract wins worth over £0.30m secured through our partnership with Datapoint, provides encouragement for the remainder of this calendar year.

### HALF YEAR RESULTS

Revenue for the six months ended 28 February 2009 was £3.19m (2008: £3.68m). The lower revenues resulted from a contract loss and attrition in our non-core, non-converged revenues. The contract loss was not a reflection on the level of service by the Group, simply a result of a client decision to take the service back in house. In common with all businesses, the uncertain economic backdrop of the last six months has resulted in a reticence on the part of some of our larger opportunities to commit to contracts, which has had an effect on sales in the first half of the year and will impact on the second half of the year.

We have however been reassured by the credit quality of our existing customer base during the period, and the importance of our services to them, which meant at the half year end there were no significant overdue balances and no requirement for a bad debt charge during the first half.

Gross profit was £1.37m (2008: £1.60m) which equated to a gross margin of 43%. We produced EBITDA before non-recurring items of £0.14m for the period (2008: £0.22m). We took positive action during the second quarter of the financial year to ensure that our cost base was aligned with our revenue base, whilst ensuring that we maintained capability in all areas. This resulted in a small number of staff redundancies, which were completed during January 2009.

Operating profit for the first half, before non-recurring items, of £0.013m (2008: loss £0.005m) is in line with management's expectations for the period, and the comparative period last year.

The Group incurred £0.41m of non-recurring items in the period relating to (in descending order of size): the write off of certain legacy network assets which have now been made obsolete by the completion of our network update; redundancy costs associated with a staff re-organisation in January 2009; and professional fees relating to a strategic review.

Cash balances at 28 February 2009 were £0.81m (2008: £1.28m).

We continue to review ways that we can mitigate the supply contract, against which we currently hold a provision of £1.38m. We commenced negotiations during the period which may or may not lead to a reduction in the contractual obligation and remaining length of this contract.

### OPERATIONS

The focus in the first half of the year has been in two key areas; capability and improvements in our routes to market.

### CAPABILITY

In our review of last year we were clear about the need for us to achieve a recognised, external “kite mark” which would provide third party validation of the efficacy of the managed services offered by the Group. We highlighted that we would seek to become accredited under the Cisco MSCP programme. I am pleased to report that, due to the extensive efforts of all staff involved in this process, we were successful in achieving this accreditation at the end of March 2009, gaining Cisco Powered Network status for managed connectivity and managed security. The independent auditors tasked with making the assessment of our policies, processes and services were particularly complimentary about the business. The accreditation and the Group’s focus on Cisco’s SMB (small and medium sized businesses) market of resellers mean that the Group now has a unique position in this chosen market.

The Cisco MSCP accreditation, whilst in itself having value given that it allows access to the highest level of global Cisco discounts, now needs to be commercially exploited. We announced on 30 March 2009 that Paul Foley had resigned as sales director. This was in part due to our changing focus on the Cisco reseller channel, which demanded a different set of skills and experience. We are currently working with Cisco’s largest UK distributor and utilising the skills and knowledge of experienced Cisco consultants to refine our product offering to maximise our chances of success in this sector in the coming months.

We acknowledged in November 2008 the importance of managed services, and the fact that provision of the network (our core capability) was the “glue” that held this together. During the first half of this year we have continued to assess and add to the number of services we can source from third party partners. These have included Unified Communications, WAN optimisation, SaaS providers and “Cloud” based services. In doing this we believe we are significantly enhancing our service offering.

### ROUTES TO MARKET

Against the uncertain economic backdrop of the last six months we have continued to seek out and identify potential partners who share our vision in terms of managed service delivery. In so doing we are looking to partners and opportunities who we can work with to “sell with” rather than “sell through”. It has taken longer to develop these relationships than we expected. However our first contract, secured through Datapoint during March 2009 for a contract value in excess of £0.30m, provides evidence that our

strategy has value and has the capability to scale. We will continue to concentrate on developing this area further over the coming months.

### OUTLOOK

Our primary focus for the remainder of this year will be “monetising” and maximising the value associated with MSCP accreditation. The Group recognises it has acquired an industry recognised capability and accreditation which has intrinsic value.

We acknowledge the short term challenges to revenue and profitability growth that result from continuing with our strategy, as it will undoubtedly take time to develop partnerships amid a backdrop of unprecedented economic uncertainty. However we believe that this strategy will generate robust managed service revenues and therefore is in the interest of shareholders.

While we anticipate the difficult economic conditions enduring for the remainder of the current financial year, we have demonstrated our capability to manage costs to mitigate potential impacts upon the business.

As ever we rely upon the continued skill, diligence and efforts of our staff and, given the achievements of the last six months, I am particularly grateful for their continuing support and effort.

### BOARD CHANGE

Finally, I would like to take this opportunity to announce that due to my increasing commitments as commercial director of the London Organising Committee of the 2012 Olympic Games it is becoming more difficult for me to commit the appropriate amount of time to the Group. After almost four years I have therefore, reluctantly, decided to step down as non-executive chairman with effect from today. Graham Norfolk, an existing non-executive director, has agreed to take over from me as non-executive chairman. I therefore would like to wish Graham and the team all the best in the future.



**CHRIS TOWNSEND**  
NON-EXECUTIVE CHAIRMAN  
11 MAY 2009

### SUMMARY

- Cisco MSCP (Cisco Powered) accreditation achieved for managed connectivity and managed security
- £0.30m contract win secured through partnership with Datapoint
- Continued to add to the managed services we can offer because of our close relationship with third party suppliers

# CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2009

	Notes	Six months ended 28 February 2009 Unaudited £000's	Six months ended 29 February 2008 Unaudited £000's	Year ended 31 August 2008 Audited £000's
REVENUE		3,193	3,678	7,145
Cost of sales		(1,828)	(2,074)	(3,836)
GROSS PROFIT		1,365	1,604	3,309
Other operating expenses		(1,230)	(1,384)	(2,810)
PROFIT FROM OPERATIONS BEFORE DEPRECIATION, AMORTISATION, SHARE-BASED PAYMENTS AND NON-RECURRING ITEMS		135	220	499
Depreciation		(84)	(202)	(369)
Amortisation of intangibles		(32)	(23)	(64)
Share-based payment costs		(6)	—	—
OPERATING PROFIT/(LOSS) BEFORE NON-RECURRING ITEMS		13	(5)	66
Non-recurring items	2	(412)	—	—
OPERATING (LOSS)/PROFIT		(399)	(5)	66
Finance income		5	22	36
Finance costs		(25)	(14)	(53)
(LOSS)/PROFIT BEFORE TAX		(419)	3	49
Income tax expense	3	—	—	—
(LOSS)/PROFIT FOR THE PERIOD/YEAR		(419)	3	49
(LOSS)/EARNINGS PER SHARE				
– basic (p)	4	(1.42)	0.01	0.17
– diluted (p)	4	(1.42)	0.01	0.16

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

# CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2009

	As at 28 February 2009 Unaudited £000's	As at 29 February 2008 Unaudited £000's	As at 31 August 2008 Audited £000's
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,211	1,754	1,548
Goodwill	334	334	334
Intangible assets	153	155	183
Investments	59	59	59
	<b>1,757</b>	2,302	2,124
<b>CURRENT ASSETS</b>			
Trade and other receivables	894	897	844
Cash and cash equivalents	810	1,280	1,254
	<b>1,704</b>	2,177	2,098
<b>TOTAL ASSETS</b>	<b>3,461</b>	4,479	4,222
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	74	74	74
Share premium	4,293	4,293	4,293
Share-based payment reserve	14	8	8
Revaluation reserve	152	152	152
Retained losses	(4,073)	(3,701)	(3,654)
<b>Equity shareholders' funds</b>	<b>460</b>	826	873
<b>Non-current liabilities</b>			
Trade and other payables	—	1	1
Financial liabilities	449	454	508
Provisions	1,382	1,600	1,520
Deferred tax	67	67	67
	<b>1,898</b>	2,122	2,096
<b>Current liabilities</b>			
Financial liabilities	108	189	150
Trade and other payables	995	1,342	1,103
	<b>1,103</b>	1,531	1,253
<b>TOTAL LIABILITIES</b>	<b>3,001</b>	3,653	3,349
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,461</b>	4,479	4,222

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 28 FEBRUARY 2009

	Share capital £000's	Share premium £000's	Share-based payment reserve £000's	Revaluation reserve £000's	Retained losses £000's	Total £000's
Balance at 1 September 2008	74	4,293	8	152	(3,654)	873
Total recognised income and expense for the period	—	—	—	—	(419)	(419)
Share-based compensation	—	—	6	—	—	6
<b>BALANCE AT 28 FEBRUARY 2009</b>	<b>74</b>	<b>4,293</b>	<b>14</b>	<b>152</b>	<b>(4,073)</b>	<b>460</b>
Balance at 1 September 2007	74	4,293	8	152	(3,703)	824
Total recognised income and expense for the period	—	—	—	—	2	2
<b>BALANCE AT 29 FEBRUARY 2008</b>	<b>74</b>	<b>4,293</b>	<b>8</b>	<b>152</b>	<b>(3,701)</b>	<b>826</b>
Balance at 1 September 2007	74	4,293	8	152	(3,703)	824
Total recognised income and expense for the period	—	—	—	—	49	49
<b>BALANCE AT 31 AUGUST 2008</b>	<b>74</b>	<b>4,293</b>	<b>8</b>	<b>152</b>	<b>(3,654)</b>	<b>873</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2009

	Notes	Six months ended 28 February 2009 Unaudited £000's	Six months ended 29 February 2008 Unaudited £000's	Year ended 31 August 2008 Audited £000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash used in operations	5	(280)	(367)	(317)
Finance costs		(25)	(14)	(53)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(305)</b>	<b>(381)</b>	<b>(370)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment		—	(76)	(79)
Purchases of intangible assets		(43)	(117)	(117)
Proceeds from sale of equipment		—	12	47
Finance income		5	22	36
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(38)</b>	<b>(159)</b>	<b>(113)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of long term borrowings		(46)	(22)	(46)
Payment of finance lease liabilities		(55)	(41)	(100)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(101)</b>	<b>(63)</b>	<b>(146)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(444)</b>	<b>(603)</b>	<b>(629)</b>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		1,254	1,883	1,883
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		810	1,280	1,254

# NOTES TO THE INTERIM STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2009

## 1. BASIS OF PREPARATION

The Group's interim results consolidate the results of the company and its subsidiary undertakings made up to 28 February 2009. The company is a limited liability company incorporated and domiciled in England & Wales and whose shares are listed on AIM, a market of the London Stock Exchange.

The financial information contained in this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. It does not, therefore, include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 August 2008.

The financial information for the six months ended 28 February 2009 is also unaudited but has been reviewed by the auditors in accordance with the 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 UK. The Group has not applied IAS 34 "Interim Financial Reporting", which is not mandatory for UK Groups, in the preparation of these interim financial statements.

The Group's statutory accounts for the year ended 31 August 2008 have been delivered to the Registrar of Companies. The independent auditors' report on these accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial information for the six months ended 28 February 2009 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union and are consistent with those which were adopted in the annual statutory financial statements for the year ended 31 August 2008 and those which will be adopted in the financial statements for the year ending 31 August 2009.

The board of directors approved the interim report on 11 May 2009.

## 2. (LOSS)/PROFIT FOR PERIOD/YEAR

(Loss)/profit for the period/year is stated after charging the following:

	<b>Six months ended 28 February 2009 Unaudited £000's</b>	Six months ended 29 February 2008 Unaudited £000's	Year ended 31 August 2008 Audited £000's
<b>NON-RECURRING ITEMS</b>			
Impairment of property, plant and equipment	<b>253</b>	—	—
Impairment of intangible fixed assets	<b>41</b>	—	—
Redundancy expenditure	<b>73</b>	—	—
Strategic business review	<b>45</b>	—	—
	<b>412</b>	—	—
Movement in onerous contract provision as a result of normal operating activities	<b>(138)</b>	—	(80)

## 3. TAXATION

There is no tax charge for the period and no deferred tax asset has been provided for. The Group has tax losses carried forward of approximately £21.91m for which no deferred tax asset provision has been made.

#### 4. (LOSS)/EARNINGS PER SHARE

	Six months ended 28 February 2009 Unaudited	Six months ended 29 February 2008 Unaudited	Year ended 31 August 2008 Audited
(LOSS)/EARNINGS PER SHARE			
– basic (p)	(1.42)	0.01	0.17
– diluted (p)	(1.42)	0.01	0.16

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share for the six months ended 28 February 2009. 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 (loss)/earnings per share are set out below:

	Six months ended 28 February 2009 Unaudited £000's	Six months ended 29 February 2008 Unaudited £000's	Year ended 31 August 2008 Audited £000's
(Loss)/earnings for the period/year	(419)	3	49

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

	Six months ended 28 February 2009 Unaudited Number	Six months ended 29 February 2008 Unaudited Number	Year ended 31 August 2008 Audited Number
For basic (loss)/earnings per share	29,600,434	29,594,788	29,595,703
For diluted (loss)/earnings per share	29,600,434	30,085,534	30,055,123

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

	Six months ended 28 February 2009 Unaudited £000's	Six months ended 29 February 2008 Unaudited £000's	Year ended 31 August 2008 Audited £000's
(Loss)/profit before tax	(419)	3	49
Adjustments for:			
Depreciation and amortisation	116	225	433
Share-based payment costs	6	—	—
Loss on disposal of equipment	—	—	36
Finance income	(5)	(22)	(36)
Finance costs	25	14	53
Impairment of property, plant and equipment and intangible fixed assets	294	—	—
Operating profit before changes in working capital and provisions	17	220	535
Increase in trade and other receivables	(50)	(54)	(1)
Decrease in provisions	(138)	—	(80)
Decrease in trade and other liabilities	(109)	(533)	(771)
Cash flows from operating activities	(280)	(367)	(317)

# INDEPENDENT REVIEW REPORT

TO NETSERVICES PLC

## INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 28 February 2009 which comprises the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report, including the conclusion, has been prepared for and only for the Company for the purpose of meeting the requirements of the AIM Rules for Companies 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 financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules for Companies.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the measurement and recognition criteria of IFRS and IFRIC pronouncements, as adopted by the European Union.

## OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with 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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 28 February 2009 is not prepared, in all material respects, in accordance with the measurement and recognition criteria of IFRS and IFRIC pronouncements as adopted by the European Union, and the AIM Rules for Companies.

## BAKER TILLY UK AUDIT LLP

CHARTERED ACCOUNTANTS

3 HARDMAN STREET

MANCHESTER

M3 3HF

11 MAY 2009

## CORPORATE INFORMATION

### DIRECTORS

GRAHAM RICHARD NORFOLK ACA  
(non-executive chairman)

MARK RICHARD VICKERS  
(chief executive officer)

IAN DAVID WINN ACA  
(finance director)

ALAN JARVIS  
(chief technical officer)

STEVEN MICHAEL HARTLEY ACA  
(non-executive director)

### COMPANY SECRETARY

JAYNE STAKES ACA

### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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### COMPANY REGISTRATION NUMBER

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