

29 January 2009

BNS Telecom Group plc

Final Results

BNS Telecom Group plc ("BNS" or the "Group"), a leading telecoms service provider and IP carrier, publishes its final results for the year to 31 July 2008. The Group has adopted IFRS accounting with 2007 comparisons restated accordingly.

Financial highlights:

- Revenue from continuing operations increased by 23.9% to £32.48 million (2007: £26.2 million) following the acquisition of 3g in 2007
- Total deferred income increased to £3.33 million (2007: £1.36 million) as at 31 July 2008
- Underlying EBITDA* £130,000 (2007: £2.26 million) includes new customer acquisition costs but excludes deferred income of £1.97 million
- Reported net loss £2.3 million (2007: loss £3.55 million) including loss of £1.43 million from discontinued businesses (2007: loss of £5.97 million)
- Strong cash generation from continuing operations of £2.41 million (2007: £2.16 million)
- Continuing strong net cash generation post year end, with net borrowings falling from £4.34 million at 31 July 2008 to £3.35 million on 30 November 2008
- Banking facilities agreed for a further 12 months

Operational highlights:

- Customer numbers increased by 15% to 10,201 as at 31 July 2008
- 50% of customer contracts have terms of between five to seven years at inception
- Total expected term revenue on the Group's contracts of fully installed IP-based products and services £13.2 million as at 22 January 2009, excludes as yet uninstalled order book of £4 million
- In excess of 1.5 million calls carried across the Group's IP switch every month

* Excluding discontinued business, exceptional items, share based payments, amortisation of intangible fixed assets and profit on sale of property

Garry Moat, Chief Executive, said:

"Our strategic shift to IP telephony has continued to translate into strong cash generation and a growing long term customer base with the associated jump in deferred income. Our debt has fallen by almost £1 million in the first four months of the current financial year.

"Our range of business critical telecommunication services within a single bundled package at very competitive prices is proving very attractive to customers, at a time when they are looking very closely at their costs. The high levels of recurring revenues from a broad and diverse customer base and the business critical nature of our products and services, give us considerable confidence in the Group's development, despite the current economic environment."

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Chief Executive's Report

The Board are pleased to announce that BNS has continued to deliver and build on the strong cash performance of the first half of the year and that the Group is well positioned to face the challenges of current economic conditions.

In 2007/08, BNS transformed from being mainly a SME telecoms reseller to being also a leading supplier of Internet Protocol (IP) products and services and mobile telephony. The strategic shift to IP telephony has also continued to translate into strong cash generation. Cash generated from continuing operations in the year to 31 July 2008 was £2.41 million (2007: £2.16 million).

As a complete telecoms carrier and service provider to the SME market, BNS is able to provide its customers with savings on their telecom spend as well as enhanced capability, flexibility and control over their communications. The economic downturn is likely to present good opportunities for further organic growth as businesses inevitably focus more on cost. Also, as Fixed Mobile Convergence (FMC) gathers pace ISDN will give way to IP telephony in the SME market. BNS is well positioned to take advantage of the opportunities this technology shift will present, as many of its competitors continue to focus on the UK fixed line reseller market.

In 2007/08, having developed a portfolio of leading IP products, BNS increased its investment in growing its customer base. Customer numbers have increased by 15% to 10,201 as at 31 July 2008 (31 July 2007: 8,898). With continued focus of the management on customer churn, the average monthly churn in the year to 31 July 2008 remained in line with 2007 levels at approximately 1.5% (2007: approximately 1.5%).

Group revenue increased by 24.4% to £32.60 million excluding an increase in deferred income of £1.97 million (2007: £26.20 million excluding discontinued operations). The Group adopts a prudent policy of expensing all customer acquisition costs immediately. As a result, the EBITDA for 2007/08 reflects the costs associated with the increased customer base but does not benefit from future contracted revenue streams. In addition, the release of deferred income on IP sales provides further forward visibility over earnings;

- A significant proportion of revenue associated with the cash received up front from sales of IP products is recognised over the term of the contract. Consequently, the stronger operating cash position is not necessarily yet reflected in the income statement. As at 31 July 2008, the level of deferred income in respect of IP sales was £1.93 million. The level of deferred income is expected to increase with further IP sales. As this then gets released to the income statement, an improvement in reported revenue and profits in 2009 is anticipated which will strengthen the Group's balance sheet.
- With 49.6% of customer contracts having terms at inception of between five and seven years, the Group has increased visibility over high levels of contracted recurring revenue.
- Total deferred income at 31 July 2008 was £3.33 million (2007: £1.36 million).

Underlying EBITDA was £130,000 (2007: £2.27 million). This is after charging the full costs of customer acquisition. Additionally £1.97 million of revenue has been deferred representing this increase in deferred income of £1.97 million, as explained above.

The Group's mobile services operation 3g, which was acquired in March 2007, has now been fully integrated and has delivered a full year's revenue contribution of £10.53 million compared with a four month contribution of £3.34 million in 2007. Progress in cross-selling mobile services across the Group's customer base has been slower than anticipated and therefore the Board consider this to represent a considerable area of focus and opportunity during 2009.

The Network Services Division was closed in October 2007 and its associated costs and cash outflows are now eliminated from the Group. The acquisitions that resulted in the Network Services Division did enhance the Group's knowledge of the emerging IP technologies. However, with hindsight the acquisitions proved to be very disappointing both operationally and financially, absorbing significant management effort and considerable levels of funding over the last two years. Of the total loss for the financial year of £2.34 million, £1.43 million arose in the now fully discontinued operations.

With all Network Services related debt now cleared, together with the levels of cash forecast, the Board expects the Group's net borrowing position to significantly reduce over the next 12 months. This is evidenced in the four month period to 30 November 2008, which shows a reduction of £1.0 million to £3.35 million. The Board are pleased to confirm that the Group has recently agreed its banking facilities for a further 12 months.

Current trading and outlook

The Directors fully recognise the challenges within the marketplace, yet consider the Group to be well positioned with a number of important strengths which make it resilient during a period of economic downturn.

In the current economic climate, most enterprises are looking to reduce and more tightly manage, their operational costs whilst also exploiting new digital technologies. BNS' ability to provide a broad range of related business critical telecommunication services within a single bundled package at very competitive prices is proving very attractive to the market. With further cutting edge products expected to be launched early in 2009 as well as opportunities for greater efficiencies, the Board believe that the Group's prospects look increasingly favourable.

As well as high levels of recurring revenues from a broad and diverse business customer base, the business critical nature of the Group's products and services means that it is less vulnerable to cuts in business' discretionary expenditure.

The Group has reached a number of exciting milestones; in September 2008 the monthly volume of calls carried across its IP switch exceeded one million and by November 2008 this figure was in excess of one and a half million. Its contracted order pipeline for IP-based products and services is at record levels for the Group. This provides clear visibility over the Group's near term performance and cash generation whilst an increasing long-term contract base with its IP products and services considerably enhances its prospects.

The expected total term revenue from the Group's contracts of fully installed IP-based products and services was £13.2 million as at 22 January 2009, which excludes an as yet uninstalled order book of £4.0 million. By the end of January 2009 it is expected that the Group will have connected its one thousandth IP-based customer site.

I would like to sincerely thank our former Chairman, Graham Wilson, who stepped down in September 2008, for his substantial contribution over the last few years. I would also like to pay tribute to all of the management and staff within the Group who have contributed to the transformation of the business over the past 18 months during an extremely challenging time of change. I know I can rely on their support as we face the challenges and take the opportunities presented by the market.

Garry Moat

Chief Executive

Business and Financial Review

Overview

In last year's Annual Report, the Board stated its belief that the development of BNS' IP Telephony service would result in a transformation of BNS from "reseller" to "IP telecoms carrier" thereby enabling BNS to exploit the growing demand from SMEs for VoIP products and services.

In 2007/08, this strategic shift has been completed and now as an IP telecoms carrier, BNS is a complete service provider to the SME market. The Group is now able to offer a unique combination of cutting-edge IP-based products in addition to traditional lines and calls. This provides customers with significantly cheaper calls and enhanced features and benefits including payment for receiving inbound calls (an industry first). BNS' VoIP network and technology can be installed or integrated with existing telephone systems if required.

As a result, the Group has built on the performance reported at the half year. BNS convert many new customer orders into cash by introducing a third party finance company who lease the equipment to the end user. Accordingly, the success of the new technology IP-based products introduced during 2007 is driving strong cash generation from continuing operations.

In the context of the downturn in the economy the resilience of the business is especially important:

Strong Customer Proposition

- BNS offers its customers a strong proposition of saving them money and enhancing their capability, flexibility and control over their communications. As a result, the economic downturn presents considerable opportunities for further growth as companies focus more on cost.
- The business critical nature of the Group's products and services means that it is less vulnerable to cuts in business' discretionary expenditure.
- BNS provides a broad range of telecoms services from traditional lines and calls to broadband, mobile and IP telephony. As Fixed Mobile Convergence (FMC) gathers pace, ISDN will inevitably give way to IP telephony in the SME market. BNS is well positioned to take advantage of this and continues to develop new IP related products and services to meet its customers' future requirements.
- The Group has strong partner relationships with its suppliers who are top European businesses, providing confidence in the continuity of service to customers.

Robust Business Model

- BNS has a direct salesforce and now five months into the financial year 2008/09, BNS has the highest contracted order pipeline in its history. This order book provides clear visibility over short term growth performance and cash generation.
- The business is highly cash generative with £2.41 million generated from continuing operating activities in 2008 (2007: £2.16 million).

- Approximately 50% of the Group's customers are on contracts with terms of between five and seven years. This provides enhanced earning visibility of contracted recurring revenue streams. In addition, BNS has strong credit vetting processes and 65% of the Group's customers (excluding schools and charities) pay monthly by direct debit further reducing the Group's credit risk.
- Credit risk is further reduced as BNS' customers are spread across all industry and service sectors and the top 10 customers account for just over 10% of revenues.
- Deferred income in respect of IP-based sales of £1.93 million as at 31 July 2008, will be released to the Income Statement over the period of the contracts. All customer acquisition charges have already been expensed; therefore, as the deferred income is released it directly impacts EBITDA. The level of deferred income has continued to increase post year end with increased IP-based sales.
- In 2007/08, BNS invested in supporting an increase in sales volumes. The focus in 2009 is on improving operational efficiencies whilst continuing to grow the business.
- The Group has recently agreed the renewal of its banking facilities for a further 12 months. With the elimination of the costs associated with discontinued activities and the level of cash generation forecast, the Board expects the Group's net borrowing position to reduce significantly over the next 12 months from £4.34 million as at 31 July 2008. This is demonstrated by the net borrowing as at 30 November 2008 being £3.35 million.

Results and operating review

IFRS

This is the first year for which the Group is reporting under IFRS. Implementation of IFRS has had a minimal impact on the Group; the main effect being the alteration to the treatment of goodwill and other intangible assets. Prior period accounts have been restated under IFRS and reconciliations between UK GAAP and IFRS are shown in note 10.

Revenue and profit

Group revenue from continuing operations increased by 24.4% to £32.60 million (2007: £26.20 million). This improvement was due to the full 12 month contribution of 3g, which was acquired in March 2007.

The expected total term revenue from the Group's contracts of fully installed IP-based products and services was £6.9 million as at 31 July 2008. Of this amount, £3.28 million of cash had been received of which £1.35 million was recognised as income and £1.93 million carried forward in the balance sheet as deferred income. The remainder of the total expected value of £3.62 million, should be invoiced and received over the remaining term of the contract. Total deferred income, whilst not recognised in the income statement until future periods, increased strongly during the year, from £1.36 million at 31 July 2007 to £3.33 million at 31 July 2008, reflecting the growth in deferred revenues from IP-based hardware sales of £1.93 million which will be released over the life of contracts, many of which are up to seven years.

The level of deferred income is expected to increase as the Group grows its long-term contract base with its IP products and services. Other deferred income relates to fixed line and maintenance revenues for which the movement over the year was neutral.

Overall, Group gross margin slightly declined from 35.7% for the year ended 31 July 2007 to 33.5% for the year ended 31 July 2008 primarily due to the change in sales mix with more comparatively lower margin mobile sales. Strong cash inflows on IP-based product sales do not fully translate to reported gross margin due the impact of deferring some revenue but expensing the full cost of customer acquisition and sale. Overall, the traditional revenue streams of fixed line, calls traffic, hardware supply and maintenance have performed broadly in line with the Group's expectations despite the pressures arising from a highly competitive market.

Underlying EBITDA from continuing operations was £0.13 million (2007: £2.27 million). The decrease in reported operating profit to a loss of £0.9 million (2007: profit £2.52 million) reflects the change in sales mix towards IP-based products and the profit on sale of land and buildings in 2007 of £1.02 million. These sales of IP based products include a significant amount of deferred income, as well as additional payroll and customer acquisition costs totalling £1.3 million as the Group grew its cost base to develop and market its wider product portfolio. Occupancy costs also increased by £0.4 million following the sale and leaseback of the property during 2007.

Net finance costs were £345,000 (2007: £307,000). The increase reflects the higher average net debt levels resulting mainly from the financing of the 3g acquisition and the funding of the cash outflows from the discontinued Network Services Division. The Group had a net tax credit of £356,000 (2007: £208,000) resulting from the recognition of a deferred tax asset in relation to current year losses.

As stated in the interim results on 30 April 2008, the Group closed its Network Services Division in late October 2007. The operating result of this discontinued operation has been disclosed separately as a single amount in the income statement and includes the outstanding closure charges, provisions and losses incurred by this unit during the first three months of the financial year.

The Group reported a net loss for the year of £2.30 million (2007: loss of £3.55 million).

Cash flow

BNS generated strong operating cash flow of £2.41 million (2007: £2.16 million) from its continuing operations. However, £2.32 million (2007: £3.03 million) was absorbed in the discontinued Network Services Division relating to losses during the first three months of the financial year and the unwinding of liabilities from the opening balance sheet. Separately the Group made a loan of £797,000 to its Chief Executive, Mr Garry Moat. Further details are provided below. As at 31 July 2008, Group net borrowings were £4.31 million (July 2007: £2.75 million).

Bank facilities

In January 2009 agreement was reached to amend the Group's bank facilities with the revised terms comprising a term loan of £3.15 million and an overdraft facility of £1.0 million. These revised bank facilities provide the Group with adequate funding to meet the Group's current forecast requirements.

Loans to Director

During the year a loan was advanced to Mr Garry Moat, the Group's Chief Executive. A loan agreement was subsequently formalised and ratified by shareholders that requires repayment of the loan by 24 July 2009. At 31 July 2008 the balance outstanding on this loan was £797,000, which includes interest of £21,000 charged at 0.3% greater than the Group's cost of borrowing.

The Board of Directors have considered the recoverability of the loan and in doing so have considered the financial assets, liabilities and cash flows of the debtor concerned. The Directors have concluded that the full balance of the loan will be recoverable, although in light of the illiquidity of current property and debt markets, it is recognised that there are uncertainties over the timing and method of repayment. The Directors are satisfied that there are a number of viable options available to Mr Garry Moat to source the funding necessary to repay the debt but that this may well not now occur before the end of July 2009. Accordingly, the Directors have reclassified the debtor as non-current, although the terms of the debt and due date of repayment remain unaltered.

Operating review

The IP-based suite of products was launched during 2007. In total nine new products have already been launched including, the Group's Hosted IP Centrex system, the BNS IP Smartbox and Call recording.

The Group's level of new sales orders has consistently grown. The average monthly contracted sales orders have been running at record levels for the Group throughout the financial year. This resulted in strong cash generation as well as developing a substantial pipeline of future business.

The BNS customer base has grown to 10,201 at 31 July 2008 compared with 8,898 at 31 July 2007. A broader product range and improvements in customer service have helped the Group keep customer churn levels comfortably below sector averages. Average monthly churn is in line with 2007 levels at approximately 1.5% (July 2007: 1.5%). The percentage of the customer base taking more than one service from the Group has also remained constant at over 86% (2007: 86%).

Performance within the traditional revenue streams of fixed line access and calls and hardware supply and maintenance have remained broadly in line with the Group's expectations. The number of fixed lines connected by the Group was significantly boosted during the latter part of the year by the connection of over 4,000 lines across eight larger customers. The first of these lines were connected in July 2008 and together with separate agreements to supply mobile services to these customers the contracts are estimated to be worth in excess of £5 million in revenue over three years.

As the numbers of customers taking IP-based products continues to grow, there will inevitably be a proportion of existing fixed line customers who are re-signed on longer term IP-based product and services contracts. Despite this emerging trend, at 31 July 2008 the number of lines connected by the Group was still marginally ahead of the 2007 volume at 45,193 (2007: 44,467).

The acquisition of 3g in March 2007 provided BNS with an immediate increase in scale in the mobile market and progress has continued to be made across a range of key indicators. The business subscriber mobile base across the Group at 31 July 2008 was 15,560 (2007: 16,341) and had risen to 17,559 by 31 December 2008. The Group continues to have a strong relationship with Vodafone and its other key suppliers.

Despite the detrimental effect of industry wide pressure on tariffs from factors such as EU roaming price reductions, margins have remained strong. This strength has resulted from focussing on selling to high margin users. Further growth is expected to result from new products, competitive tariff offerings and also greater internal efficiencies. The Board also believes that the opportunity to cross-sell mobile products to the existing BNS customer base is still at a comparatively early stage of the process and represents considerable upside in 2009.

Owning its own IP-based network, BNS controls the routing of calls, thereby ensuring the quality of calls being made. Its Network Operations Centre continues to play an important role in supporting and developing the IP-based product offerings. The Group expects to continue to develop enhanced products and features based on the IP platform.

Revenue by product is also included below to provide further useful information when interpreting the financials.

REVENUE BY PRODUCT	2008	2007
	(£m)	(£m)
IP-based products and services (amount invoiced)	4.1	-
Less: deferred income	(1.9)	-
IP-based products and services revenue	<u>2.2</u>	<u>-</u>
Mobile services	11.3	4.9
Fixed line access and calls	16.7	18.0
Traditional PBX systems and maintenance	2.4	3.3
Total revenue	<u>32.6</u>	<u>26.2</u>

Accounting Policy Review and IFRS

BNS Telecom Group plc's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Policies (GAAP) until 31 July 2007. UK GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied to the UK GAAP financial statements to

comply with IFRSs as adopted by the European Union. Implementation of IFRS has had a minimal impact on the Group; the main effect being the alteration to the treatment of goodwill and other intangible assets. Prior period accounts have been restated under IFRS and reconciliations between UK GAAP and IFRS are shown in note 10.

**Consolidated Income Statement
for the year ended 31 July 2008**

	Note	2008 £'000	2007 £'000
Revenue		32,597	26,201
Cost of sales		(21,719)	(16,838)
Gross profit		10,878	9,363
Distribution costs		(3,248)	(2,346)
Administrative expenses		(8,551)	(5,514)
Trading profit		(921)	1,503
Profit on disposal of property		-	1,018
Group operating (loss)/profit		(921)	2,521
Underlying EBITDA		130	2,267
Depreciation		(732)	(557)
Amortisation		(209)	(80)
Share-based payments		35	(52)
Exceptional costs		(145)	(75)
Profit on disposal of property		-	1,018
Group operating (loss)/profit		(921)	2,521
Finance income		90	21
Finance costs		(435)	(328)
(Loss)/profit before income tax and discontinued operations		(1,266)	2,214
Income tax credit	2	356	208
(Loss)/profit after tax before discontinued operations		(910)	2,422
Loss from discontinued operations after tax	4	(1,434)	(5,970)
Loss for the financial year		(2,344)	(3,548)
Attributed to:			
Equity holders of the parent		(2,344)	(3,525)
Minority interest		-	(23)
		(2,344)	(3,548)
Earnings per share - continuing	3	Pence	Pence
- basic earnings per share		(1.7)	4.8
- diluted earnings per share		(1.7)	4.6
- underlying basic EBITDA per share	3	0.3	4.5
Earnings per share - total	3		
- basic earnings per share		(4.6)	(7.0)
- diluted earnings per share		(4.6)	(7.0)

**Consolidated Statement of Recognised Income and Expense
for the year ended 31 July 2008**

	2008 £'000	2007 £'000
Deferred tax on share options	-	10
Income recognised directly in equity	-	10
Loss for the year	(2,344)	(3,548)
Total recognised income and expense for the year	(2,344)	(3,538)
Attributed to:		
Equity holders of the parent	(2,344)	(3,515)
Minority interest	-	(23)
	(2,344)	(3,538)

**Consolidated Balance Sheet
at 31 July 2008**

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Property, plant and equipment - at revaluation		479	479
Property, plant and equipment - at cost		1,672	1,697
Goodwill		3,843	3,843
Other intangible assets		1,259	1,450
Trade and other receivables		797	-
Deferred tax assets		375	71
		8,425	7,540
Current assets			
Inventories		456	316
Trade and other receivables	5	3,952	4,095
Current income tax receivable		-	132
Cash and cash equivalents		2	2,148
		4,410	6,691
Total assets		12,835	14,231
Liabilities			
Current liabilities			
Borrowings		(3,924)	(1,556)
Trade and other payables	6	(7,091)	(7,458)
Deferred income		(1,900)	(1,362)
Current income tax payable		(86)	-
Derivative financial instruments		(14)	(4)
		(13,015)	(10,380)
Net current liabilities		(8,605)	(3,689)
Non-current liabilities			
Borrowings		(391)	(3,340)
Deferred income		(1,439)	-
Deferred tax liabilities		(312)	(364)
Provisions		(40)	(130)
		(2,182)	(3,834)
Total liabilities		(15,197)	(14,214)
Net (liabilities)/assets		(2,362)	17
Capital and reserves			
Share capital	7	5,012	5,012
Share premium	7	2,245	2,245
Other reserves	7	(3,939)	(3,939)
Retained earnings	7	(5,680)	(3,301)
Total shareholders' (deficit)/equity		(2,362)	17

**Consolidated Cash Flow Statement
for the year ended 31 July 2008**

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash generated from continuing operations	8	2,414	2,156
Interest received		63	21
Interest paid on bank loans and overdrafts		(21)	(268)
Interest element of finance lease payments		(44)	(52)
Tax received/(paid)		218	(226)
Cash flow from operating activities in continuing operations		2,630	1,631
Cash flow from operating activities in discontinued operations		(2,318)	(3,033)
Total cash flow from operating activities		312	(1,402)
Cash flows from investing activities			
Purchase of property, plant and equipment		(190)	(1,443)
Proceeds from sale of property		-	4,804
Proceeds from sale of plant and equipment		99	-
Acquisitions (net of cash acquired)		-	(3,307)
Amount loaned to Director		(1,263)	(44)
Amounts repaid by Director		498	37
Purchase of intangible assets		(18)	(159)
Cash flow from investing activities in continuing operations		(874)	(112)
Cash flow from investing activities in discontinued operations		-	-
Total cash flow from investing activities		(874)	(112)
Cash flows from financing activities			
Increase in bank loans		-	5,777
Repayment of bank loans	9	(1,175)	(3,808)
Capital element of finance lease payments	9	(466)	(476)
Dividends paid		-	(251)
Cash flow from financing activities in continuing operations		(1,641)	1,242
Cash flow from financing activities in discontinued operations		-	-
Total cash flow from financing activities		(1,641)	1,242
Net increase / (decrease) in cash and cash equivalents		(2,203)	(272)
Cash and cash equivalents at start of period		2,096	2,368
Cash and cash equivalents at end of period		(107)	2,096

Notes to the Financial Statements

1. Basis of Preparation

BNS Telecom Group plc's consolidated Financial Statements were prepared in accordance with UK Generally Accepted Principles (GAAP) until 31 July 2007.

These Financial Statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention.

The financial information is abridged and does not contain the Group's full Financial Statements for the year ended 31 July 2007 and 2008.

Full Financial Statements for the year ended 31 July 2007 (which received an unqualified audit report) have been filed with the Registrar of Companies. A copy of the Group's Annual Report and Financial Statements for the year ended 31 July 2008 is being sent to shareholders and will be presented at the forthcoming Annual General Meeting; a copy is also available on the Group's website www.bnsplc.com. They will also be available at the registered office of the Company, Telecom House, Princess Way, Low Prudhoe, Northumberland, NE42 6NJ during normal business hours. The Audit Report on these Financial Statements is unqualified.

2. Taxation

(a) Analysis of charge for the year:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Current tax		
UK Corporation tax	-	-
Adjustments in respect of prior years	-	(160)
	-	(160)
Deferred tax		
Credit for the year	(300)	(46)
Deferred tax release re Intangible fixed assets	(52)	-
Adjustments in respect of prior years	(4)	(2)
	(356)	(48)
Total tax credit	(356)	(208)
Less tax charge included within discontinued operations	-	-
Total tax credit in the income statement	(356)	(208)

(b) Deferred tax included in the statement of recognised income and expense

	31 July 2008 £'000	31 July 2007 £'000
Deferred tax charge on share options	-	10

(c) Reconciliation of total tax charge for the year

	31 July 2008 £'000	31 July 2007 £'000
Loss before tax (including discontinued operations)	(2,700)	(3,756)
Loss before tax multiplied by the rate of corporation tax in the UK of 28% (2007: 30%)	(756)	(1,126)
Effect of:		
Disallowables	55	404
Losses carried forward not recognised	-	494
Losses relating to discontinued business	401	-
Losses brought forward	-	(7)
Deferred tax losses not recognised	-	213
Prior year deferred tax overprovision	(4)	(2)
Prior year corporation tax overprovision	-	(160)
IFRS deferred tax movement	(52)	16
Other	-	(40)
Total tax credit reported in the income statement	(356)	(208)

(d) Factors that may affect future tax charges

To the extent that tax losses carried forward can be utilised against profits from the same trade, future tax costs will be reduced.

3. Earnings per share

(a) Continuing

The calculation of continuing basic earnings per share is based on the loss for the period after taxation but before discontinued operations and a weighted average number of ordinary shares outstanding during the period as follows:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
<u>(Loss)/profit for the period</u>	<u>(910)</u>	<u>2,422</u>
	Shares '000	Shares '000
<u>Weighted average number of shares - basic</u>	<u>50,123</u>	<u>50,123</u>

(b) Total

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period as follows.

	2008 £'000	2007 £'000
<u>Loss for the period</u>	<u>(2,344)</u>	<u>(3,548)</u>
	Shares '000	Shares '000
<u>Weighted average number of shares - basic</u>	<u>50,123</u>	<u>50,123</u>

(c) Diluted

The calculation of diluted earnings per share in respect of continuing operations for the year ended 31 July 2008 and the total Group for the years ended 31 July 2007 and 31 July 2008 is the same as the basic earnings per share as calculated above. There is no difference as the exercise of options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33.

The diluted earnings per share in respect of continuing operations for the year ended 31 July 2007 has been calculated using the same numerators as set out in (a) and (b) above and by reference to the following number of shares:

	2007 Shares '000
Number of shares per basic earnings per share calculations	50,123
Effect of shares under option	2,597
Weighted average number of shares - diluted	52,720

(d) Underlying basic EBITDA per share

A reconciliation of the results for the periods used to calculate basic earnings per share to underlying EBITDA used to calculate the underlying basic EBITDA per share is set out below:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Loss for the period	(2,344)	(3,548)
Net finance costs	345	307
Depreciation and amortisation	941	637
Share-based payments	(35)	52
Exceptional costs	145	75
Profit on disposal of property	-	(1,018)
Tax	(356)	(208)
Loss after tax in respect of discontinued operations	1,434	5,970
Underlying EBITDA	130	2,267

4. Discontinued operations

The discontinued operations comprise the trading activities of the Network Services business which was closed on 29 October 2007. The results of the year ended 31 July 2007 has therefore been restated to show this operation as discontinued.

The loss from discontinued operations after tax is analysed as follows:

	2008	2007
	£'000	£'000
Revenue	2,150	8,710
Cost of sales	(2,421)	(8,623)
Gross profit	(271)	87
Operating costs	(1,163)	(5,754)
Operating loss	(1,434)	(5,667)
Closure and associated costs	-	(303)
Loss before income tax	(1,434)	(5,970)
Income tax expense	-	-
Loss after tax	(1,434)	(5,970)

Basic and diluted earnings per share in respect of discontinued operations were a loss of 2.9 pence and 11.9 pence for the years ended 31 July 2008 and 31 July 2007 respectively.

5. Trade and other receivables

	31 July	31 July
	2008	2007
	£'000	£'000
Current		
Trade receivables	2,272	2,176
Net investment in finance leases	119	-
Prepayments and accrued income	1,399	1,715
Other receivables	162	204
	3,952	4,095
Non-current		
Trade and other receivables – loan to a Director	797	-

6. Trade and other payables

	2008	2007
	£'000	£'000
Current		
Trade payables	3,583	3,905
Social security and other taxes	954	1,102
Accruals	2,554	2,451
	7,091	7,458

7. Capital and reserves

Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 August 2006	5,012	2,245	(3,821)	244	3,680
Total recognised income and expense	-	-	-	(3,515)	(3,515)
Equity-settled share-based payments	-	-	-	52	52
Realised revaluation surplus	-	-	(118)	169	51
Dividends paid	-	-	-	(251)	(251)
At 31 July 2007	5,012	2,245	(3,939)	(3,301)	17
Total recognised income and expense	-	-	-	(2,344)	(2,344)
Equity-settled share-based payments	-	-	-	(35)	(35)
At 31 July 2008	5,012	2,245	(3,939)	(5,680)	(2,362)

Share capital

	2008 £'000	2007 £'000
Authorised		
65,000,000 (2007: 65,000,000) ordinary shares of 10p	6,500	6,500
Allotted, issued and fully paid		
50,122,930 (2007: 50,122,930) ordinary shares of 10p	5,012	5,012

Share options over ordinary shares

At 31 July 2008 options to subscribe for 1,423,985 ordinary shares at prices between 27.0 pence and 54.0 pence were outstanding under the Company's two equity-settled share option schemes. Options outstanding under these schemes are exercisable at various times up to December 2017. No further options have been granted since the year end.

Other reserves

Other reserves comprise a merger reserve which arose on the restructuring of the Group at the time of the admission to the Alternative Investment Market in November 2005 and a revaluation reserve created on the revaluation of freehold land and buildings. At 31 July 2008 the balance in respect of the revaluation reserve was £nil (2007: £nil).

8. Cash generated from continuing operations

	2008 £'000	2007 £'000
Loss for the year	(2,344)	(3,548)
Loss after tax on discontinued operations	1,434	5,970
Depreciation and other non-cash items:		
Depreciation	732	557
Amortisation of intangible assets	209	80
Loss on disposal of plant and equipment	48	-
Profit on disposal of property	-	(1,018)
Share based payments	(35)	52
Changes in working capital:		
(Increase)/decrease in inventories	(143)	87
(Increase)/decrease in trade and other receivables	(410)	752
Increase/(decrease) in payables	957	(764)
Increase/(decrease) in deferred income	1,977	(111)
Finance revenue	(90)	(21)
Finance costs	435	328
Tax	(356)	(208)
Cash generated from continuing operations	2,414	2,156

9. Analysis of movements in net borrowing

	As at 1 August 2007 £'000	Cash flows £'000	Non-cash items £'000	As at 31 July 2008 £'000
Cash	2,148	(2,146)	-	2
Bank overdraft	(52)	(57)	-	(109)
Cash and cash equivalents	2,096	(2,203)	-	(107)
Bank loans	(4,349)	1,175	(339)	(3,513)
Finance leases and hire purchase contracts	(495)	466	(664)	(693)
Net borrowings	(2,748)	(562)	(1,003)	(4,313)

10. Adoption of IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 31 July 2008, the comparative information presented in these financial statements for the year ended 31 July 2007 and in the preparation of an opening IFRS balance sheet at 1 August 2006, the Group's date of transition.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its prior basis of accounting, UK GAAP. An

explanation of how the transition from UK GAAP to IFRS has affected the Group's financial performance and financial position and is set out in the following tables and notes that accompany the tables. The transition to IFRS has not impacted the Group cash flow and hence the Group cash flow statement has not required restatement.

Reconciliation of loss for the year ended 31 July 2007

	Note	UK GAAP - as reported £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	(h)	34,911	(8,710)	26,201
Cost of sales	(h)	(25,461)	8,623	(16,838)
Gross profit		9,450	(87)	9,363
Operating costs	(i)	(13,896)	6,036	(7,860)
Trading profit		(4,446)	5,949	1,503
Profit on disposal of property		1,018	-	1,018
Group operating profit		(3,428)	5,949	2,521
Underlying EBITDA		(903)	3,170	2,267
Depreciation	(j)	(872)	315	(557)
Amortisation	(j)	-	(80)	(80)
Share-based payments		(52)	-	(52)
Exceptional costs	(k)	(2,619)	2,544	(75)
Profit on disposal of property		1,018	-	1,018
		-	-	-
Group operating profit		(3,428)	5,949	2,521
Finance income		21	-	21
Finance costs	(l)	(324)	(4)	(328)
(Loss)/profit before income tax and discontinued operations		(3,731)	5,945	2,214
Income tax credit/(expense)	(m)	196	12	208
(Loss)/profit after tax before discontinued operations		(3,535)	5,957	2,422
Loss from discontinued operations after tax	(h)	-	(5,970)	(5,970)
Loss for the financial year		(3,535)	(13)	(3,548)
Attributed to:				
Equity holders of the parent		(3,512)	(13)	(3,525)
Minority interest		(23)	-	(23)
		(3,535)	(13)	(3,548)

Reconciliation of equity

Note	Opening balance sheet as at 1 August 2006			Closing balance sheet as at 31 July 2007		
	UK GAAP - as reported £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP - as reported £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets						
Non-current assets						
Property, plant and equipment - at cost (a)	4,402	(39)	4,363	1,722	(25)	1,697
Property, plant and equipment - at revaluation	1,422	-	1,422	479	-	479
Goodwill (b)	2,044	-	2,044	4,754	(911)	3,843
Other intangible assets (b)	-	39	39	152	1,298	1,450
	7,868	-	7,868	7,107	362	7,469
Current assets						
Inventories	270	-	270	316	-	316
Trade and other receivables	3,877	-	3,877	4,095	-	4,095
Current income tax receivable	-	-	-	132	-	132
Cash and cash equivalents	2,614	-	2,614	2,148	-	2,148
	6,761	-	6,761	6,691	-	6,691
Non-current assets held for sale (f)	-	-	-	-	-	-
	6,761	-	6,761	6,691	-	6,691
Total assets	14,629	-	14,629	13,798	362	14,160
Liabilities						
Current liabilities						
Borrowings	(3,044)	-	(3,044)	(1,556)	-	(1,556)
Trade and other payables (c)	(7,217)	(73)	(7,290)	(8,728)	(92)	(8,820)
Current income tax payable	(254)	-	(254)	-	-	-
Derivative financial instruments (d)	-	-	-	-	(4)	(4)
	(10,515)	(73)	(10,588)	(10,284)	(96)	(10,380)
Net current assets	(3,754)	(73)	(3,827)	(3,593)	(96)	(3,689)
Non-current liabilities						
Borrowings	(300)	-	(300)	(3,340)	-	(3,340)
Deferred tax liabilities (e)	(36)	(2)	(38)	-	(293)	(293)
Provisions	-	-	-	(130)	-	(130)
	(336)	(2)	(338)	(3,470)	(293)	(3,763)
Total liabilities	(10,851)	(75)	(10,926)	(13,754)	(389)	(14,143)
Net assets	3,778	(75)	3,703	44	(27)	17
Capital and reserves						
Share capital	5,012	-	5,012	5,012	-	5,012
Share premium	2,245	-	2,245	2,245	-	2,245
Capital redemption	-	-	-	-	-	-

reserve							
Other reserves	(f)	(3,770)	(51)	(3,821)	(3,939)	-	(3,939)
Retained earnings	(g)	268	(24)	244	(3,274)	(27)	(3,301)
Total shareholders' equity		3,755	(75)	3,680	44	(27)	17
Minority interest		23	-	23	-	-	-
Total equity		3,778	(75)	3,703	44	(27)	17

Notes to the reconciliation of equity and reconciliation of loss for the year ended 31 July 2007

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the restated consolidated balance sheets and income statement:

(a) Property, plant and equipment – at cost

	1 August 2006 £'000	31 July 2007 £'000
Software reclassified as intangible assets	(39)	(25)

Under IAS 16 certain items of software do not meet the criteria for recognition as property, plant and equipment and have been reclassified as intangible assets.

(b) Goodwill and other intangible assets

	1 August 2006 £'000	31 July 2007 £'000
Goodwill		
Goodwill arising since 1 August 2006 reclassified as purchased intangible assets	-	(1,337)
Reversal of amortisation charged since 1 August 2006		
- continuing operations	-	62
- discontinued operations	-	109
Adjustment resulting from recognition of deferred tax liability	-	364
Impairment of goodwill	-	(109)
	-	(911)
Other intangible assets		
Reclassified from property, plant and equipment	39	25
Reclassified from goodwill	-	1,337
Amortisation charged	-	(64)
	39	1,298

The Group has applied IFRS 3 to all business combinations that have occurred since 1 August 2006 (the date of transition to IFRS). As a result part of the goodwill which arose after that date under UK GAAP, relating to customer contracts and relationships, has been reclassified as purchased intangible assets.

Under UK GAAP goodwill was amortised on a straight-line basis over the anticipated useful economic life of the business acquired. Under IFRS goodwill is not amortised but measured at cost less impairment losses with an annual test for impairment. Accordingly, the carrying value of goodwill is frozen at 1 August 2006 (the date of transition to IFRS) and amortisation charged under UK GAAP since this date has been reversed.

A deferred tax liability arising on the recognition of the customer contracts intangible has been reflected with a corresponding adjustment to goodwill.

Under IAS 36 goodwill must be tested annually for impairment. In the UK GAAP financial statements for the year ended 31 July 2007 an exceptional goodwill impairment of £929,000 was recognised in respect of the discontinued Network Services business. As a result of the reversal of goodwill amortisation set out above in respect of this discontinued business, there is a corresponding increase in the impairment charge.

The intangible asset in respect of customer contracts and relationships will be written off over 7 years on a straight-line basis, being the estimated useful economic life from the date of acquisition.

(c) Trade and other payables

	1 August 2006 £'000	31 July 2007 £'000
Holiday pay accrual	(73)	(92)

Previously no provision was made for holiday pay. IAS 19 requires that holiday accrued by employees, but not taken at the balance sheet date must be provided for.

(d) Derivative financial instruments

	1 August 2006 £'000	31 July 2007 £'000
Fair value of derivative financial instrument	-	(4)

IAS 39 requires all derivative financial instruments to be included in the balance sheet at fair value. The Group has one such instrument, a structured collar agreement taken out during 2007 to manage interest rate risk. This instrument does not qualify for hedge accounting and all movements in fair value have therefore been reflected within finance costs in the income statement.

(e) Deferred tax liabilities

	1 August 2006 £'000	31 July 2007 £'000
Changes in deferred taxation arising as a result of:		
- revalued assets	(51)	-
- reclassification of other intangible from goodwill	-	(364)
- holiday pay accrual	20	26
- share-based payments	29	45
	(2)	(293)

Under UK GAAP deferred tax is generally recognised on all timing differences that have originated but not reversed by the balance sheet date. The exception is the recognition of deferred tax assets, where recognition is limited to the extent which the Group anticipates making sufficient taxable profits in the future to absorb the reversal of underlying timing differences.

Under IFRS, deferred tax is accounted for using the balance sheet liability method in respect of temporary differences. These differences arise between the carrying amount of assets and liabilities in the balance sheet and their corresponding tax base. Deferred tax is not recognised on temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transition where there is no effect on either the tax or accounting profit.

Deferred tax liabilities have been recognised in respect of customer contracts and relationships and accrued holiday pay (see (b) and (c) above).

Under UK GAAP no deferred tax liability was recognised when the Group's freehold property was revalued in February 2004. IFRS requires that deferred tax is recognised on revaluation and accordingly a deferred tax asset has been reflected on the date of transition to IFRS.

In addition, IFRS requires deferred tax to be reflected on share-based payment expenses/(credits).

(f) Other reserves

	1 August 2006 £'000	31 July 2007 £'000
Deferred tax on revalued asset	(51)	-

The deferred tax adjustment in respect of the revalued assets is recognised as a debit to the revaluation reserve within other reserves.

(g) Retained earnings

	1 August 2006 £'000	31 July 2007 £'000
Impact of adjustments:		
- IFRS 3 - Business combinations	-	107
- IAS 36 - Impairment of goodwill	-	(109)
- IAS 19 - Holiday pay accrual	(73)	(92)
- IAS 12 - Recognition of deferred tax	49	71
- IAS 32/39 - Fair value of derivative financial instruments	-	(4)
	(24)	(27)

The above table shows the cumulative effect on retained earnings of the adjustments described elsewhere.

(h) Discontinued operations

Under IFRS 5, businesses which are discontinued through closure rather than sale are not disclosed as discontinued until closure is complete. The closure of the Network Services business was completed on 29 October 2007. The results the Network Services business for the period from 1 August 2007 to 29 October 2007 and associated costs in respect of the closure of this business are therefore disclosed as discontinued operations in the year ended 31 July 2008, with the income

statement for the year ended 31 July 2007 restated to show the results of this business and associated costs as discontinued.

The results of the Network Services business for the year ended 31 July 2007 reclassified as discontinued are as follows:

	31 July 2007 £'000
Revenue	8,710
Cost of sales	(8,623)
Gross profit	87
Operating costs	(6,057)
Operating loss	(5,970)
Underlying EBITDA	(3,189)
Depreciation	(299)
Exceptional costs	(2,482)
Operating loss	(5,970)

(i) Operating costs

	2007 £'000
Discontinued business - see note (h)	6,057
Holiday pay expense - see note (c)	(19)
Goodwill amortisation - see note (b)	62
Amortisation of other intangible assets - see note (b)	(64)
	6,036

(j) Depreciation and amortisation

	Depreciation £'000	Amortisation £'000
Discontinued business - see note (h)	299	-
Reclassification from property, plant and equipment to other intangibles	16	(16)
Amortisation of other intangible assets - see note (b)	-	(64)
	315	(80)

(k) Exceptional costs

	2007 £'000
Discontinued business - see note (h)	2,482
Goodwill amortisation - see note (b)	62
	2,544

(l) Finance costs

	2007 £'000
Movement in fair value of derivative financial instrument - see note (d)	(4)

(m) Income tax credit

	2007 £'000
Holiday pay expense - see note (e)	6
Share-based payments - see note (e)	6
	12