

30 April 2008

BNS Telecom Group plc

Interim Results

BNS Telecom Group plc ("BNS" or the "Group"), a leading IP telecoms services provider and carrier, publishes its interim results for the six months ended 31 January 2008. The Group has adopted IFRS accounting with 2007 comparisons restated accordingly.

Highlights:

- Revenue from continuing operations increased by 44% to £16.39 million (2007: £11.41 million)
 - Excluding deferred income from IP product sales of £681,000 for future release.
- Gross margins remain strong in traditional telecoms products.
- Underlying operating profit* £530,000 (2007: £831,000).
- Closure of loss making Network Services Division in October 2007.
- Reported pre tax losses, including discontinued activities, £1.16 million (2007: profit £0.39 million).
- Adjusted* earnings per share were 0.55p (2007: 1.06p).
- Strong cash generation from continuing operations of £1.21 million (2007: outflow of £0.43 million).
- Strategic shift to IP telecoms carrier being implemented
 - 'New wave technology' suite of products launched
 - Contracted IP-based sales order values of £8.5 million at 28 April 2008 including an order book of £2.8 million
 - Fully installed total contract value £3.2 million as at 31 January 2008 and £5.7 million as at 28 April 2008
 - Further product development for fixed mobile convergence
- Appointed a Vodafone Premier Partner.
- Group net debt unchanged at £2.8 million despite discontinued Network Services outflow of £1.2 million.

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

Garry Moat, Chief Executive, said:

"The rapid repositioning of BNS from reseller to IP telecoms carrier continues to gather momentum. We are confident that the Group is entering a very exciting period in its development having launched nine new IP-related products in nine months and with the largest order book to date, currently standing at £2.8 million.

"Following the final closure of the loss making Network Services Division in the first half of 2007/2008, a continued improvement in trading results in the second half is anticipated. This will be built on the profitable performance of our mobile operations and the increasing market penetration of our IP solutions.

“The sales force has been doubled and staff numbers have been increased across the business to handle the additional sales volume generated by these exciting new products. Ongoing cash generation is improving and the growing levels of deferred income provide enhanced forward visibility. As we continue to develop our suite of IP products, overall our prospects look increasingly favourable.”

Enquiries:

BNS Telecom Group plc

Garry Moat, Chief Executive

Andrew Goldwater, Finance Director

Tel: 01661 839 554

KBC Peel Hunt Ltd (Nominated Adviser & Broker)

David Anderson

Tel: 020 7418 8900

College Hill

Adrian Duffield/Kate Norton

Tel: 020 7457 2815

Chairman's and Chief Executive's Statement

Strategic Overview

The Group has continued its shift in strategic direction from being a SME telecoms reseller towards positioning BNS as a leading supplier of Internet Protocol (IP) products and network services. BT's roll out of their 21st Century Network (21CN), a next-generation network underpinned by IP, represents a clear statement from a market leading provider of their view of the market's future direction. BNS shares that view and is confident that as Fixed Mobile Convergence (FMC) gathers pace ISDN will inevitably give way to IP telephony in the SME market.

The roll out of the Group's IP strategy is transforming the financial performance of the business and has resulted in a notable jump in total contract values and strong cash generation from its IP telephony products. These products and services also provide the Group with considerable enhanced forward visibility as most are sold with contract lengths of between five and seven years.

Financials

Group revenue, excluding discontinued operations and deferred income relating to IP-based products of £680,000, increased by 43.7% to £16.39 million (2007: £11.41 million excluding discontinued operations). Most of this improvement was due to the full six month contribution of 3g, which was acquired in March 2007, strong growth of the new IP products as well as a good performance by the Group's traditional revenue streams of fixed line, calls traffic, hardware supply and maintenance.

Fully installed total IP-based contract value as at 31 January 2008 was £3.2 million of which £1.11 million had been invoiced. Deferred income on the balance sheet of £0.68 million reflects revenues which will be released over the life of contracts, some up to seven years. This is expected to increase as the Group grows its long-term contract base with its IP products and services.

Group gross margin has fallen from 38.2% to 33.9% primarily due to the change in sales mix with more comparatively lower margin mobile sales. Overall, the traditional revenue streams of fixed line, calls traffic, hardware supply and maintenance have performed well, broadly in line with the Group's expectations. Strong margins on IP-based product sales have also helped to offset pressure on margins in a highly competitive market.

Underlying operating profit from continuing operations was £530,000 (2007: £831,000) before intangible charges and amortisation of £95,000 (2007: £Nil), a share-based payment credit of £26,000 (2007: charge of £28,000) and exceptional items of £150,000 (2007: £118,000). This decrease in operating profit reflects the change in sales mix towards IP-based products which include a significant amount of deferred income.

Net finance costs were £375,000 (2007:£112,000). The increase reflects the higher average net debt levels resulting mainly from the financing of the 3g acquisition. Pre-tax profit from continuing operations was £107,000 (2007: £590,000).

The Group had a net tax credit of £341,000 (2007: expense of £122,000) as a result of utilisation of tax losses arising during the period in the Network Services Division. The credit has also benefited from the release of an overprovision in 2006.

As stated in the preliminary results on 28 November 2007, the Group closed its Network Services Division in late October 2007. The post-tax result of this discontinued operation has been disclosed separately as a single amount 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 period of £821,000 (2007: profit of £264,000). Adjusted earnings per share arising from continuing operations were 0.55p (2007: 1.06p). Basic loss per share for the period was 1.64p (2007: earnings per share 0.57p).

BNS generated strong cash flow of £1.21 million (2007: outflow of £0.43 million) from its continuing operations and having kept a tight control on cash maintained its net debt position at £2.8 million (July 2007: £2.8 million) in spite of cash outflows from discontinued operations of £1.16 million. A VAT creditor of £800,000 relating to proceeds from the sale and leaseback of the head office property also reversed during the period.

Capital expenditure on plant and equipment during the period was £0.1 million representing normal recurring expenditure. The Group continues to operate a policy of writing off all research and development costs in full in the period in which they are incurred.

Operating review

The BNS customer base has grown to 9,460 compared with 8,898 at 31 July 2007 and 6,336 at 31 January 2007. A further reduction in average monthly churn to approximately 1.4% (July 2007: 1.5%) reflects a broadening product range and improvements in customer service.

The IP-based suite of products was launched during 2007. In total nine new products have now been launched in the last 12 months including the Group's Hosted IP Centrex system, the BNS IP Smartbox, WiDial and Call recording. Average monthly sales order intake has been running at record levels for the Group throughout the period.

The Group has continued to increase its sales, marketing and engineering capabilities. Although this recruitment increases up-front costs, it will enable BNS to take advantage of the growing demand for IP-based products and convert the growing order book to installed sales. At 28 April 2008 the outstanding order book for IP-based products had a total term contract value of £2.8 million. The majority of sales are on contracts of between five and seven years.

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.

Fixed line access and calls	H1 2008	H1 2007
Revenue (£'m)	8.5	9.0
Lines volume	43,260	44,708
Call minutes sold ('000)	100,695	110,384

The reduction in fixed line access and call revenue reflects falling call usage as more business calls are made on mobiles and also a reduction in internet dial-up usage as the availability of broadband-based internet access becomes more widespread. Continued pricing pressure in a very competitive market has also led to a reduction in call margins by approximately 3.0% between H1'2008 and H1'2007. The Group is well positioned to resist these market trends due to its extended product range and newly negotiated terms with its key supply partners which will reduce buying costs in H2'2008.

Mobile	H1 2008	H1 2007
Revenue (£'m)	5.83	0.63
Subscribers	17,910	2,685

Since the acquisition of 3g in March 2007, which provided the Group with an immediate increase in scale in the mobile market, progress has continued to be made across a range of key indicators. Mobile network churn remains well controlled at 10.4%, giving the Group a solid platform for further growth. Although monthly ARPU's have reduced in line with industry trends, they remain strong at £53.

The Group continues to have a highly productive working relationship with Vodafone as demonstrated by BNS' appointment as a Vodafone Premier Partner, one of only five in the UK.

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. The integration of 3g in to the Group has also resulted in certain synergies and cost savings being identified and exploited. The Board believes that the process of cross-selling mobile products to the existing BNS customer base is still at a comparatively early stage and represents a considerable opportunity in H2'2008.

Hardware Supply and Maintenance £'m	H1 2008	H1 2007
Traditional systems		
Revenue	1.37	1.77
IP-based systems		
Revenue recognised	0.43	-
Deferred income	0.68	-
Invoiced sales	1.11	-
Total invoiced sales	2.48	1.77

The shifting demand from traditional telephone systems to IP based technology will inevitably lead to falling sales of traditional hardware supply and maintenance. The Group had expected the changing sales focus to lead to a greater fall in sales of traditional systems than has actually been experienced. Hardware margins are also improving overall due to the higher proportion of IP systems being sold.

Revenue recognised in H1'2008 for combined traditional and IP-based products at £1.80 million is higher compared with H1'2007 revenue of £1.77m. Total invoiced sales for traditional and IP-based systems have increased by 40.1% to £2.48 million (2007: £1.77 million). The difference between revenue recognised and total invoiced sales represents deferred income in the balance sheet to be released to profit over the term of the customer contract.

BNS' Network Operations Centre continues to play an important role in supporting the IP-based product offerings of Group. This strategic role will become even more important as the Group continues to develop its IP products. Employing its own network, BNS controls the routing of calls, thereby ensuring the quality of calls being made. Having launched its first FMC product, WiDial, in 2007, the Group is well positioned to deliver market leading solutions as this technology continues to develop.

As an IP telecoms carrier the Group is now able to offer a unique combination of cutting-edge products including payment for receiving inbound calls (an industry first) and VoIP on mobile phones, plus significantly cheaper calls. BNS' VoIP network and technology can be installed or integrated with existing telephone systems, to ensure SME and corporate customers have enhanced capability, flexibility and control over their communications.

Current trading and outlook

The transformation of BNS into a leading supplier in IP-based voice solutions has strengthened the Group's position as a complete service provider to the SME market. Indeed the Board believes BNS is at the forefront of this transformation in its chosen market.

The success of the new technology IP-based products introduced during 2007 is expected to drive strong cash generation within the continuing operations of the Group as well as providing enhanced forward visibility. The greatest opportunity for BNS over the coming years will be to enable customers to take advantage of converged VoIP solutions. Furthermore, the pipeline of cross-selling activity continues to build and is expected to be an area of progress for the Group in H2'2008.

BNS has set itself apart from other 'resellers' by investing in its own switching infrastructure. Now with a proven track record as an IP telecoms carrier, the Directors believe that the Group is well placed to take advantage of opportunities arising in a rapidly changing market. It is anticipated that this will result in continued strong cash generation and further improvements in earnings visibility as deferred income builds in the balance sheet and is released to profit over the duration of the long-term contracts.

Following the final closure of the loss making Network Services Division in the first half of 2007/08, a continued improvement in trading results in the second half is anticipated. This is expected to be built on the profitable performance of the Group's mobile operations and the increasing market penetration of the Group's IP solutions. The sales force has been doubled and staff numbers have been increased across the business to handle the additional sales volume generated by these exciting new products.

With a total contract value on IP-based products as at 28 April 2008 of £8.5 million, including an order book of £2.8 million, ongoing cash generation is improving and the growing levels of deferred income provide enhanced forward visibility. As the Group continues to develop its suite of IP products, overall the Group's prospects look increasingly favourable.

Graham Wilson
Chairman
30 April 2008

Garry Moat
Chief Executive

Consolidated Income Statement

	Note	(Unaudited) 6 months ended 31 January 2008 £'000	Restated (Unaudited) 6 months ended 31 January 2007 £'000	Restated (Audited) Year ended 31 July 2007 £'000
Continuing operations				
Group revenue		16,391	11,407	26,201
Cost of sales		(10,840)	(7,049)	(16,838)
Gross profit		5,551	4,358	9,363
<hr/>				
Net operating expenses (excluding depreciation, amortisation, share based payments and exceptional items)		(4,802)	(3,194)	(7,100)
Depreciation of tangible assets		(219)	(333)	(569)
Goodwill charges and intangible amortisation		(95)	-	(71)
Share-based payment credit/(charge)		26	(28)	(52)
Exceptional items		(150)	(118)	(68)
Net operating expenses		(5,240)	(3,673)	(7,860)
<hr/>				
Group operating profit before sale of property		311	685	1,503
Profit on sale of property		-	-	1,018
Group operating profit from continuing operations		311	685	2,521
Finance revenue		34	-	21
Finance costs		(238)	(95)	(328)
Profit from continuing operations before taxation		107	590	2,214
Taxation (expense)/credit		(48)	(182)	208
Profit for the period from continuing operations		59	408	2,422
<hr/>				
Discontinued operations				
Post tax loss for the period from discontinued operations	3	(880)	(144)	(5,970)
<hr/>				
(Loss)/profit for the period		(821)	264	(3,548)
(Loss)/profit for the period attributable to:				
Equity holders of the parent		(821)	287	(3,525)
Minority interest		-	(23)	(23)
<hr/>				
EARNINGS PER SHARE				
- basic on continuing operations	4	0.12p	0.86p	4.88p
- diluted on continuing operations	4	0.12p	0.84p	4.79p
- adjusted on continuing operations	4	0.55p	1.06p	3.21p
<hr/>				
- basic on all operations for the period	4	(1.64)p	0.57p	(7.03)p
- diluted on all operations for the period	4	(1.64)p	0.56p	(7.03)p

Consolidated Balance Sheet

	(Unaudited) As at 31 January 2008 £'000	Restated (Unaudited) As at 31 January 2007 £'000	Restated (Audited) As at 31 July 2007 £'000
Note			
Assets			
Non-current assets			
Property, plant and equipment	2,042	6,689	2,176
Intangible assets	1,353	84	1,450
Goodwill	3,843	2,090	3,843
	7,238	8,863	7,469
Current assets			
Inventories	372	292	316
Trade and other receivables	4,075	5,706	4,227
Cash and cash equivalents	1,478	736	2,148
Taxation assets	265	-	-
	6,190	6,734	6,691
Total Assets	13,428	15,597	14,160
Liabilities			
Current liabilities			
Trade and other payables	(4,702)	(3,177)	(5,007)
Borrowings	(1,353)	(5,005)	(1,556)
Accruals and deferred income	(4,303)	(3,109)	(3,813)
Taxation liabilities	-	(352)	-
Other financial liabilities	(41)	-	(4)
	(10,399)	(11,643)	(10,380)
Non-current liabilities			
Borrowings	(2,920)	(158)	(3,340)
Other provisions	(69)	-	(130)
Deferred income	(573)	-	-
Deferred tax liabilities	(331)	(41)	(293)
	(3,893)	(199)	(3,763)
Total liabilities	(14,292)	(11,842)	(14,143)
Net (liabilities)/assets	(864)	3,755	17
Capital and reserves			
Called up share capital	5	5,012	5,012
Share premium	5	2,245	2,245
Other reserves	5	(3,939)	(3,939)
Revenue reserve	5	(4,182)	319
Total equity	(864)	3,755	17

Consolidated Statement of Recognised Income and Expense

	(Unaudited) 6 months ended 31 January 2008 £'000	Restated (Unaudited) 6 months ended 31 January 2007 £'000	Restated (Audited) Year ended 31 July 2007 £'000
Income and expense recognised directly in equity			
Deferred tax on share based payments	(34)	11	10
<hr/>			
Net income recognised directly in equity	(34)	11	10
(Loss)/profit for the year	(821)	264	(3,548)
<hr/>			
Total recognised income and expense for the year	(855)	275	(3,538)
Attributable to:			
Equity holders of the parent	(855)	298	(3,515)
Minority interest	-	(23)	(23)
<hr/>			
	(855)	275	(3,538)
<hr/>			

Consolidated cash flow statement

	Note	6 months ended 31 January 2008 (Unaudited) £'000	6 months ended 31 January 2007 (Unaudited) £'000	Year ended 31 July 2007 (Unaudited) £'000
Cash flow from operating activities				
Cash inflow/(outflow) from operations	6	52	(1,849)	(884)
Finance income		31	-	21
Finance expense		(200)	(112)	(320)
Interest element of finance lease payments				
Tax received/(paid)		218	(20)	(226)
Net cash generated from/(used in) operating activities		101	(1,981)	(1,409)
Investing activities				
Proceeds from sale of property, plant & equipment		25	49	4,804
Payments to acquire property, plant & equipment		(120)	(1,263)	(1,443)
Acquisition of subsidiaries (net of cash acquired)		-	(100)	(3,307)
Purchase of intangible assets		(7)	(114)	(159)
Net cash used in investing activities		(102)	(1,428)	(105)
Financing activities				
Net (decrease)/increase in borrowings		(416)	1,124	1,969
Repayment of capital element of finance lease payments		(201)	(257)	(476)
Dividend paid		-	(251)	(251)
Net cash (outflow)/inflow from financing activities		(617)	616	1,242
Net (decrease)/increase in cash and cash equivalents				
	7	(618)	(2,793)	(272)
Cash and equivalents at the start of the period	7	2,096	2,368	2,368
Cash and equivalents at end of period		1,478	(425)	2,096

Notes

Unaudited results for the six months ended 31 January 2008

1. Summary of significant accounting policies

BNS Telecom Group PLC (the "Company") is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Company for the six months ended 31 January 2008 comprise the Company and its subsidiary undertakings (together referred to as the "Group").

The Group is required to adopt International Financial Reporting Standards (IFRS) with effect from 1 August 2007. The results for the six months to 31 January 2008 represent the Group's first interim financial statements prepared in accordance with IFRS. The Group's first IFRS Annual Report and Financial Statements will be for the year ending 31 July 2008.

Previously, the Group reported under UK GAAP. The accounting policies used in this statement are consistent with those to be used in the July 2008 annual report. Detailed reconciliations, showing the impact of transition to IFRS, are reported in a separate document, which is available on our website www.bnsplc.com

This interim report has been prepared using those standards that the Group expects to be endorsed and applicable when the IFRS financial statements are prepared for the year ending 31 July 2008. These standards are subject to ongoing review and endorsement by the European Union or possible amendment by interpretive guidance from the International Accounting Standards Board and the International Financial Reporting Interpretations Committee and are, therefore, still subject to change.

The interim results are not reviewed by the auditors, Ernst & Young LLP.

2. Taxation

The interim tax charge is based on an estimate of the likely effective tax rate for the full year, expressed as a percentage of the expected results for the year and then applied to the interim profit before tax.

3. Discontinued operations

	6 months ended 31 January 2008 (Unaudited) £'000	6 months ended 31 January 2007 (Unaudited) £'000	Year ended 31 July 2007 (Unaudited) £'000
Revenue	1,762	4,437	8,710
Expenses	(2,860)	(4,624)	(12,974)
Operating loss	(1,098)	(187)	(4,264)
Impairment of goodwill and P,P&E	-	-	(1,706)
Finance (costs)/income	(171)	(17)	-
Loss before tax from discontinued operations	(1,269)	(204)	(5,970)
Tax credit on loss on ordinary activities	389	60	-
Loss after tax on discontinued operations	(880)	(144)	(5,970)

4. Earnings per share

(a) Basic earnings per share

The calculation of earnings per share is based on the net profit/(loss) for the financial period and on the weighted average number of ordinary shares in issue during a six month period.

	6 months ended 31 January 2008 (Unaudited)	6 months ended 31 January 2007 (Unaudited)	Year ended 31 July 2007 (Unaudited)
Basic earnings per share			
Net profit/(loss) attributable to equity holders of the parent (£'000)			
- Continuing operations	59	408	2,422
- All operations including discontinued	(821)	264	(3,548)
Weighted average number of shares in issue ('000)	50,123	50,123	50,123
Basic earnings per share (pence)			
- Continuing operations	0.12	0.81	4.83
- All operations including discontinued	(1.64)	0.53	(7.08)

(b) Adjusted earnings per share

Adjusted earnings per share excludes the after tax effect of amortisation of goodwill and exceptional operating expenses. The directors believe that this gives a better indication of underlying commercial performance.

	6 months ended 31 January 2008 (Unaudited) £'000	6 months ended 31 January 2007 (Unaudited) £'000	Year ended 31 July 2007 (Unaudited) £'000
Adjusted earnings per share			
(Loss)/profit after tax	(821)	264	(3,548)
Effect of discontinued operations	880	144	5,970
Amortisation of intangible assets	95	-	64
Exceptional items relating to continuing operations	150	118	68
Profit on sale of property	-	-	(1,018)
Share based payment credit/charge	(26)	28	52
Adjusted profit after tax	278	554	1,588
Weighted average number of shares in issue ('000)	50,123	50,123	50,123
Adjusted earnings per share (pence)	0.55	1.11	3.17

(c) Diluted earnings per share

The calculation of diluted (loss)/earnings per ordinary share is identical to that used for the basic loss per ordinary share for the 6 months ended 31 January 2008 and the year ended 31 July 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.

For the 6 months ended 31 January 2007 the effect of the dilution is to reduce the earnings per share from 0.57p to 0.56p.

5. Movement in reserves

	Equity share capital £'000	Share premium £'000	Other reserve £'000	Revenue reserves £'000	Total £'000
At 1 August 2007 (restated)	5,012	2,245	(3,939)	(3,301)	17
Total recognised income and expense	-	-	-	(855)	(855)
Share based payment	-	-	-	(26)	(26)
At 31 January 2008	5,012	2,245	(3,939)	(4,182)	(864)

6. Reconciliation of operating profit to net cash inflow from operating activities

	6 months ended 31 January 2008 (Unaudited) £'000	6 months ended 31 January 2007 (Unaudited) £'000	Year ended 31 July 2007 (Unaudited) £'000
Continuing operations			
Operating profit	311	685	2,521
Adjustments for:			
Depreciation	211	333	569
Profit on sale of property, plant and equipment	-	(9)	(1,018)
Amortisation of intangibles	104	-	71
Share option non cash charge	(26)	28	52
Changes in working capital			
(Increase)/decrease in inventories	(58)	(1)	87
(Increase)/decrease in other receivables	(487)	(433)	745
Decrease/(increase) in trade and other payables	1,156	(1,036)	(878)
Cash generated from continuing operations	1,211	(433)	2,149
Discontinued operations			
Loss before interest and tax	(1,104)	(187)	(5,970)
Adjustments for:			
Depreciation	64	31	972
Impairment of goodwill	-	-	1,038
Changes in working capital			
Decrease/(increase) in inventories	3	(21)	(3)
Decrease/(increase) in other receivables	507	(1,396)	35
(Decrease)/increase in trade and other payables	(568)	157	765
(Decrease)/increase in provisions	(61)	-	130
Cash outflow from discontinued operations	(1,159)	(1,416)	(3,033)
Cash generated from operations	52	(1,849)	(884)

7. Analysis of net debt

	At 1 August 2007 £'000	Cash flow £'000	Other non cash changes £'000	(Unaudited) At 31 January 2008 £'000
Cash at bank and in hand	2,148	(670)	-	1,478
Bank overdrafts	(52)	52	-	-
Cash	2,096	(618)	-	1,478
Finance leases and hire purchase contracts	(495)	201	(46)	(340)
Loans	(4,349)	416	(43)	(3,976)
Net debt	(2,748)	(1)	(89)	(2,838)

8. Publication of non-statutory financial statements

The financial information contained in the interim statements does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and the results are unaudited. The financial information for the year to 31 July 2007 and the six months ended 31 January 2007 has been extracted from the Group's IFRS transitional document, which were based on the Group's 2007 Annual Review and the 2007 interim report.

The 2007 Annual Review has been filed with the Registrar of Companies. The audit report on the Annual Report 2007 was unqualified and did not contain a statement under Section 237 (2) or (3), of The Companies Act.

9. Approval by the Board of Directors

The interim Report was approved by the Board of Directors on the 29 April 2008.