

Nasstar plc Preliminary Results for the year ended 30 September 2008

Nasstar plc ("Nasstar" or "the Company") which provides cloud computing, is pleased to announce its preliminary results for the year ended 30 September 2008.

Highlights

- Turnover increased 75% to £2.1m (2007: £1.2m)
- Positive EBITDA of £241,000 (2007: loss of £153,000)
- Operating profit £32,000 (2007: loss of £365,000)
- Nasstar Hosted Desktop voted CNET UK Business Application of the Year 2008
- Partner Programme to enable service providers to sell Nasstar Hosted Desktop now ready for launch
- Contract wins include a 4 year contract with Allied Healthcare (Nasdaq: AHCI, AIM: AHI) for 800 Hosted Desktop users and a 3 year contract with Pinnacle Staffing Group plc (AIM: PCL) for 160 Hosted Desktop users

Lord Daresbury, Nasstar's Chairman, commented "We have made excellent progress this year achieving sales growth from £1.2m to £2.1m and becoming EBITDA positive. The Board believes that the market for Nasstar Hosted Desktop will continue to grow and that the launch of our partner programme will create a large opportunity to expand its reach. We are confident about future growth prospects. "

For further information:

Nasstar plc

Charles Black, Chief Executive Officer 020 7148 5000

Ambrian Partners Limited (Nominated Adviser)

Tim Goodman 020 7634 4705

About Nasstar plc

Nasstar (<http://www.nasstar.com>) provides desktop computing over the internet, enabling subscribers to do all of their computing in the internet cloud, with access to their desktop, files, applications and email over the internet rather than on-premise. Cloud computing is a highly scalable service that provides benefits including anywhere access to computing and provides an alternative to traditional locally installed on-premise computing. Nasstar was founded in 1998 by Charles Black. Nasstar plc was admitted to trading on the London Stock Exchange Alternative Investment Market in December 2005 (AIM: NASA).

Chairman's Statement

I am pleased to report the results of the Company for the year ended 30 September 2008. Sales increased to £2.1m from £1.2m and the Company has made its first positive EBITDA. The change in sales focus to Nasstar Hosted Desktop took place in the second half of the period with the launch of the new web site. The Board believes that the market for Nasstar Hosted Desktop will continue to grow and that the partner programme being launched will enable the Company to further enhance sales. The partner programme will enable other service providers to market the award winning Nasstar Hosted Desktop and thereby secure further market penetration for our product. Although the economy as a whole seems likely to experience challenging conditions during 2009 we believe Nasstar Hosted Desktop is likely to be attractive in such conditions as prospective customers look for cost savings. Given the fast growing market for cloud computing and the launch of our partner programme in addition to direct sales we are confident about future growth prospects.

The Lord Daresbury
Chairman
17 November 2008

Chief Executive's Review

Cloud computing takes shape

This year has seen an important change in our sales strategy as we shifted focus to Nasstar Hosted Desktop at a time when it wasn't clear how ready the market was for the product. The first version of Nasstar Hosted Desktop was launched in 2004 but required dedicated hardware for each new customer. As a result it was not scalable. In light of our view that Nasstar Hosted Desktop could be a mass market product we continued to invest time, staff and hardware in devising a scalable solution. The result was a 'multi-tenanted' system whereby the Nasstar Hosted Desktop platform was built as a single system which scaled easily as new customers were added to the platform. The first version of the multi-tenanted platform was released in late 2006 and further development continued in 2007 to refine the product. By December 2007 we were confident that Nasstar Hosted Desktop was ready for a proper marketing push. A new web site was developed and launched in March 2008 with a bullish PR campaign "the end of the IT department" to communicate that desktop computing was now a simple internet subscription service and didn't require a traditional on-premise IT support department.

There is compelling logic for buying Nasstar Hosted Desktop. Starting from the proposition that most businesses need core desktop computing then the only issue is how best to deliver that need. Put simply desktop computing can be delivered two ways: on-premise or over the internet. The latter delivers these services in the internet cloud - 'cloud computing' - and this is Nasstar's model. When one considers the benefits of the hosted desktop model compared to the traditional on-premise model then the hosted version wins on benefits. The key benefits of Nasstar Hosted Desktop are described below.

Value. Nasstar Hosted Desktop is a 'pay as you go' model for IT rather than a capital expenditure model. This means companies do not have to invest cash in their own servers and software licenses but instead can pay monthly for what they use. Not only does this approach save capital expenditure but it also ensures IT costs are predictable and transparent. In the current economic climate this is a far more attractive approach than the traditional capital expenditure model.

Security. Nasstar Hosted Desktop means that a company's data is stored in a secure data centre rather than on local PCs and laptops. There have been many stories in the media in the last year regarding lost laptops and therefore lost data. Nasstar Hosted Desktop means that no data is stored on local machines providing a more secure solution for your business data.

Simplicity. Although Nasstar Hosted Desktop is an innovative approach to delivering desktop computing the end user experience is very simple. The only requirements to be able to access your Nasstar Hosted Desktop - including all your applications and company data - are a web browser and an internet connection. Once logged in the user is faced with the familiar environment of a Microsoft Windows desktop and the business standard Microsoft Office applications including Word, Excel, Powerpoint and Outlook for email. So no re-training in new applications or a new environment is required.

Freedom. Nasstar Hosted Desktop enables you to access your desktop, applications and files from anywhere provided that you have an internet connection and web browser. This makes remote and flexible working strategies very simple. In a society concerned about the environment and the daily challenges of increased commuter congestion, many companies consider home working a more productive approach to growth and Nasstar's Hosted Desktop enables flexible working solutions to be implemented quickly and easily.

Scalability. Nasstar provides customers with a customer portal through which they can add and remove users very easily, making the solution extremely scalable.

In forming the view that it was the right time to focus sales on Nasstar Hosted Desktop, the Board took the view that whilst Hosted Exchange was a competitive market place, few providers have a hosted desktop solution. Our view was that cloud computing - delivering desktop plus applications and file storage in the internet cloud - is a huge growth market and it was better that we were pioneers and the only AIM pure play focussed on it than to sit back and wait for others to develop the market.

In terms of the number of subscribers live and being invoiced for Nasstar Hosted Desktop, sales increased by 500% during the period. In addition to these sales a number of contracts have been won that will ensure a substantial increase in the number of subscribers being invoiced during future periods.

The contracts we have been successful in winning include contracts for a significant number of users. These include the 4 year contract with Allied Healthcare Group for 800 users in over 100 office locations and a 3 year contract with Pinnacle Staffing Group plc for 160 users. The size of company adopting Hosted Desktop provides optimism for the future.

Despite the shift in focus to selling Nasstar Hosted Desktop, sales of Hosted Exchange email have still continued to grow with subscriber numbers increasing by 30% during the year.

Taking Nasstar Hosted Desktop to the wider market

Having successfully launched Nasstar Hosted Desktop during the year through direct selling Nasstar proposes to increase market size by selling not only directly but also through a partner programme which will extend market reach by enabling third party service providers to sell Nasstar Hosted Desktop. We have been planning and developing the partner programme during the period, partly in response to interest and approaches from third parties interested in selling Nasstar Hosted Desktop as a pioneering product. The Board believe that Nasstar can obtain faster growth and a larger market share in a shorter space of time by enabling third party service providers to sell Nasstar Hosted Desktop.

Award winning Nasstar Hosted Desktop

Nasstar was pleased to win the CNET UK Networks Business Application of the Year 2008, this award, presented at the London Hilton hotel in September, is a significant recognition of the innovation that Nasstar has developed.

The Market

Nasstar Hosted Desktop is part of the 'Software as a Service' (SaaS) market which is growing at a fast pace. SaaS itself is part of a wider trend of internet growth, with TV, radio, telephone and music increasingly using the internet as a delivery platform. Worldwide revenues from SaaS are predicted to more than double between 2007 and 2011 to US\$11.5 billion (Gartner market research). The growth is being driven by a number of factors including low cost high speed internet connectivity and the belief of software vendors that revenues in the medium to longer term will be greater if they deliver their software as a service as opposed to a traditional box product. Larger companies involved in the developing market include Google, Amazon and Microsoft. In September 2008 Microsoft announced their future vision of cloud computing, delivering software over the internet from their data centres. HP, Intel and Yahoo have also recently announced a plan to develop cloud computing.

The Board believes that Nasstar Hosted Desktop has an important place in this fast developing market. This is because in addition to the standard Microsoft applications Nasstar Hosted Desktop also enables customers to access their other applications such as Sage accounting or Salesforce CRM software. As a result Nasstar is not tied to one particular software vendor but instead provides the platform through which customers can use not only the core Microsoft applications but industry specific or bespoke applications supplied by third parties.

At present there are other providers of hosted desktop but all appear to be small private companies and Nasstar has clearly established a strong reputation in the market place evidenced by the inbound interest from larger ISPs in the UK. Nasstar's proposal is to capture as large a part of the market as possible through its partner programme that will enable other ISPs and IT service companies to sell Nasstar Hosted Desktop rather than seeking to develop their own hosted desktop platform.

Operations

Nasstar has streamlined a number of operations this year to ensure even greater scalability. The web hosting contracts were disposed of in April. The logic of this was that hosting corporate web sites was no longer core business and there was a high risk that revenues from the remaining contracts would continue to decline. It therefore made sense to cash in on the contracts during the period and to use the proceeds for further working capital in developing the core business of Nasstar Hosted Desktop.

We have further developed the Customer Portal to enable customers to manage even more of their Hosted Exchange, BlackBerry and Nasstar Hosted Desktop services themselves. Such developments are welcomed by customers as they have more control over day to day maintenance. These developments also benefit Nasstar by reducing the volume of incoming support requests.

We launched new help desk software in April. The software provides a knowledge base that is updated by Nasstar support staff when resolutions are found to new problems. Customers benefit from this as they can find an answer to their support query without the need to raise a support ticket. Our statistics have shown that the number of support tickets per customer have fallen as a result.

Employees and overheads

The number of employees has remained constant and we do not envisage any significant increase in employee numbers.

Outlook

The market is moving towards cloud computing at a fast pace and Nasstar is well placed in this market to increase its subscriber base through both direct sales and through its partner programme. The Board is confident about the Company's strategy and future growth prospects.

Charles Black
Chief Executive Officer
17 November 2008

Consolidated Income Statement
for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Revenue		2,101	1,193
Cost of sales		(495)	(301)
Gross profit		<u>1,606</u>	<u>892</u>
Operating and administrative expenses		(1,659)	(1,187)
Share-based payments		(28)	(70)
Total operating and administrative expenses		<u>(1,687)</u>	<u>(1,257)</u>
Other operating income		113	-
EBITDA	3	<u>241</u>	<u>(153)</u>
Operating profit/(loss)		32	(365)
Finance expenses		(161)	(128)
Loss before taxation		<u>(129)</u>	<u>(493)</u>
Taxation		(3)	6
Loss for the year		<u>(132)</u>	<u>(487)</u>
Loss per share:			
Basic	2	<u>(0.9p)</u>	<u>(3.5p)</u>
Diluted	2	<u>(0.9p)</u>	<u>(3.5p)</u>

All amounts relate to continuing operations.

Consolidated Balance Sheet

30 September 2008

	Note	2008 £000	2007 £000
Assets			
Non-current assets			
Goodwill		844	844
Intangible assets		153	18
Property, plant and equipment		421	275
		<hr/> 1,418	<hr/> 1,137
Current assets			
Trade and other receivables		708	489
Cash and cash equivalents		65	58
		<hr/> 773	<hr/> 547
Total assets		<hr/> 2,191	<hr/> 1,684
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital		161	145
Share premium		1,472	1,031
Merger reserve		662	662
Retained deficit		(1,309)	(1,205)
Total equity	5	<hr/> 986	<hr/> 633
Non-current liabilities			
Interest-bearing loans and borrowings		<hr/> 110	<hr/> 84
Current liabilities			
Interest-bearing loans and borrowings		195	105
Trade and other payables		900	862
		<hr/> 1,095	<hr/> 967
Total equity and liabilities		<hr/> 2,191	<hr/> 1,684

Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Merger Reserve	Retained deficit	Total equity
	£	£	£	£	£
At 1 October 2006	109	67	662	(788)	50
Loss for the year	-	-	-	(487)	(487))
Total recognised income and expense for the year	-	-	-	(487)	(487))
Shares issued in year	36	964	-	-	1,000
Share-based payment	-	-	-	70	70
At 30 September 2007	145	1,031	662	(1,205)	633
At 1 October 2007	145	1,031	662	(1,205)	633
Profit for the year	-	-	-	(132)	(132)
Total recognised income and expense for the year	-	-	-	(132)	(132)
Shares issued in year	16	441	-	-	457
Share-based payment	-	-	-	28	28
At 30 September 2008	161	1,472	662	(1,309)	986

Consolidated Cash Flow Statement

Year ended 30 September 2008

	2008	2007
	£000	£000
Cash flow from operating activities		
Operating profit/(loss) before taxation	31	(365)
Adjustments for:		
Depreciation and amortisation	323	212
Share-based payments	28	69
Profit on sale of plant and equipment	(113)	-
Corporation taxes paid	(4)	(25)
Net cash flow from operating activities before changes in working capital	265	(109)
Increase in trade and other receivables	(219)	(75)
Increase in trade and other payables	90	209
Net cash flow generated from operating activities	136	25
Investing activities		
Payments for property, plant and equipment	(606)	(227)
Proceeds from the sale of property, plant and equipment	115	13
Acquisition of subsidiary undertaking	-	(778)
Net cash flow from investing activities	(491)	(992)
Financing activities		
Issue of ordinary shares	457	1,000
Proceeds from lease-finance arrangements	235	161
Repayment of lease-finance arrangements	(119)	(106)
Interest paid	(161)	(128)
Net cash flow from financing activities	412	927
Net (decrease)/increase in cash and cash equivalents in the year	57	(40)
Cash and cash equivalents at the beginning of the year	8	48
Cash and cash equivalents at the end of the year	65	8

NASSTAR PRELIMINARY ANNOUNCEMENT

1 Basis of preparation and significant accounting policies

The consolidated financial statements of Nasstar plc have been prepared in accordance with accepted International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively "IFRSs") as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated financial statements are the first Nasstar plc financial statements to be prepared in accordance with IFRS, the transition date being 1 October 2006.

The financial statements have been prepared on the assumption that the Group is a going concern. The financial statements show a loss for the period of £132,000 and net current liabilities of £322,000. At the date of the financial statements the Group's ability to continue as a going concern reflects the net funds available to the Group at the year end and the forecasts for the current financial period. On this basis, in the opinion of the Directors, the financial statements have been properly prepared on the assumption that the Group is a going concern.

First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 'First-time Adoption of International Financial Reporting Standards'

- Business combinations effected before 1 October 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- IFRS2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortised over a period of 2 to 4 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pensions

The Group only operates defined contribution pension schemes. Contributions are charged to profit and loss on an accruals basis for the relevant accounting period.

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed pound sterling which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is pound sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in the income statement for the period.

The Group has no foreign operations.

Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the

income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

2 Earnings/(loss) per share

The calculation of the basic loss per share arising is based upon the loss profit after tax attributable to ordinary shareholders of £132,000 (2007: loss of £487,000) and a weighted average number of shares in issue for the year of 16,976,268 (2007: 15,522,190).

Diluted earnings per share

The calculation of the diluted earnings/(loss) per share arising is based upon the net profit after tax and minority interests attributable to ordinary shareholders £132,000 (2007: loss of £487,000) and a weighted average number of shares in issue for the year of 16,976,268 (2007: 15,522,190). The diluted loss per share in 2008 and 2007 is the same as the basic loss per share as the losses have an anti-dilutive effect.

Reconciliation of basic and diluted number of shares in issue:

	Year ended 30 September 2008 Group No	Year ended 30 September 2007 Group No
Weighted average number of shares in issue	14,786,768	13,876,190
Options to subscribe for shares in the Company	2,189,500	1,646,000
Diluted weighted average number of shares in issue	<u>16,976,268</u>	<u>15,522,190</u>

3 EBITDA

EBITDA (earnings before interest, tax, depreciation and amortisation) is defined as operating profit or loss excluding charges for depreciation and impairment.

4 The financial information in this announcement does not constitute statutory accounts within the meaning of Section 240 Companies Act 1985 as amended ("the Act"). Statutory accounts in respect of the year ended 30 September 2007, on which the auditor's report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and contain no statement under Section 237 (2) or (3) of the Act, have been delivered to the Registrar of Companies. The auditors have indicated that they intend to give an unmodified report, which will not contain any statement under Section 237 (2) 4 (3) of the Act on the statutory financial statements for the year ended 30 September 2008. Copies of the company's report and financial statements will be sent to shareholders shortly and will be available at the Registered Office of the company.

5 Transition to International Financial Reporting Standards

The Group and Company reported under UK GAAP in its previous published financial statements for

the year ended 30 September 2007. The analysis below shows a reconciliation of net assets as reported under UK GAAP as at 1 October 2006, and 30 September 2007 for the Group to the revised net loss and assets under International Financial Reporting Standards (IFRS) as reported in these financial statements. There were no material changes to the equity or profit and loss of the Company.

As stated in the Basis of Preparation, these are the Group's first consolidated financial statements covered by IFRS.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out below.

Significant changes to the cash flow statement

None of the adjustments arising from the transition to IFRS relate to cash and therefore there is no impact on the reported cash flows.

Reconciliation of equity at 1 October 2006

	UK GAAP	Adjustment (a)	IFRS
	£000	£000	£000
Non-current assets			
Goodwill	-	-	-
Intangible assets	-	-	-
Property, plant and equipment	140	103	243
Current assets			
Trade and other receivables	321		321
Cash and cash equivalents	48	-	48
Current liabilities			
Obligations under finance leases	(9)	(55)	(64)
Trade and other payables	(444)	-	(444)
Non-current liabilities			
Obligations under finance leases	(20)	(34)	(54)
Net assets	<u>36</u>	<u>14</u>	<u>50</u>
Equity			
Share capital	109	-	109
Share premium account	67	-	67
Merger reserve	662	-	662
Profit and loss account	(802)	14	(788)
Total equity	<u>36</u>	<u>14</u>	<u>50</u>

Reconciliation of equity at 30 September 2007

	UK GAAP	Adjustment (a)	IFRS
	£000	£000	£000
Non-current assets			
Goodwill	844	-	-
Intangible assets	-	-	-
Property, plant and equipment	119	173	292
Current assets			
Trade and other receivables	489		489
Cash and cash equivalents	58	-	58
Current liabilities			
Obligations under finance leases	(20)	(85)	(105)
Trade and other payables	(861)	-	(861)
Non-current liabilities			
Obligations under finance leases	-	(84)	(84)
Net assets	<u>629</u>	<u>4</u>	<u>633</u>
Equity			
Share capital	145	-	145
Share premium account	1,031	-	1,031
Merger reserve	662	-	662
Profit and loss account	(1,209)	4	(1,205)
Total equity	<u>629</u>	<u>4</u>	<u>633</u>

Note to the reconciliations:

(a) From 1 October 2006, the date of transition to IFRS, the Group's accounting treatment of leases is required to comply with International Accounting Standard 17 (IAS 17). UK GAAP, under SSAP 21, provided greater flexibility over the accounting treatment. Under IAS 17, whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The equipment leases entered into by the Group provide for the payment to the lessor of a nominal sum at the end of the primary lease term in exchange for title to the equipment that has been subject to the lease and the Group does, in practice, make such payments. Under UK GAAP, the Group designated such leases as operating leases. Under IFRS, the Group now designates such leases as finance leases with the resultant change in accounting treatment from the UK GAAP presentation.