

## **Nasstar plc**

("Nasstar" or the "Company")

### **Preliminary Results for the year ended 30 September 2009**

Nasstar plc, the hosted desktop cloud computing provider, is pleased to announce its preliminary results for the year ended 30 September 2009.

#### **Summary**

- Turnover £2m (2008: £2.1m)
- EBITDA loss of £352k (2008: £241k profit) and a loss after tax of £939k (2008: loss £132k)
- 126% increase in Hosted Desktop subscribers to 30 September 2009: 1,149 (2008: 508)
- 18.4% increase in Hosted Exchange subscribers to 30 September 2009: 9,151 (2008: 7,726)
- Partners signed up as at 30 September 2009: 16
- £1m new equity raised during the period

#### **Post-year end summary**

- Positive EBITDA in the first two months
- Hosted Desktop subscribers as at 30 November 2009: 1,281
- Hosted Exchange subscribers as at 30 November 2009: 9,402
- Partners signed up as at the current date: 23, with discussions at an advanced stage with a further 14

Charles Black, Nasstar's Chief Executive, commented "The fundamentals of this business are far stronger than they were 12 months ago. By that I refer not only to the balance sheet, cash flow and invoiced sales, but also developments in our Hosted Desktop technology and subscriber growth. We have continued to develop our Hosted Desktop service and have some exciting developments in the pipeline for the 2010 product roadmap which we feel will further strengthen our service offering. In my view, the market for cloud computing is moving from talk to action and I believe 2010 will see the hosted desktop market move from its early adoption phase to the mainstream.

Performance at the turnover level, taking into account a reduction in accrued income for long-term contracts, actually increased by 20%. This growth took place during a very difficult economic climate and an aborted transaction which was announced earlier in the year. The recession meant we lost some customers who went out of business and a number of existing customers decreased their user numbers. As for prospective customers, whilst Nasstar Hosted Desktop can reduce their costs, many decided to hold fire on adopting the service whilst the economy was so fragile. We therefore experienced a significant lull in sales activity primarily between November 2008 and June 2009. The aborted transaction cost us £91,000 in professional fees (taking into account a contribution to our costs from the other party) and also a huge amount of management time and focus.

Despite the challenges of recession and the costs of an aborted transaction, I believe we have emerged from 2009 much stronger as a business. We have reduced overheads, including a Board restructuring, and increased sales. We have had a good start to the new financial year, and as anticipated in previous statements are trading EBITDA positive. Like many subscription model businesses, the early years involve substantial investment in getting a service operating and then the focus shifts to signing up subscribers. We have raised £2.4m since our admission to trading on AIM and are now moving to the point where we can continue to develop our intellectual property and systems whilst having a sufficient mass of subscribers to be earnings positive. The number of partners signed up is in line with our expectations and we are at an advanced stage of discussions

with 14 other partners. We are currently enjoying a satisfying level of sales and seeing the build up of a very promising sales pipeline through both partners and direct sales."

For further information:

*Nasstar plc*

Charles Black, Chief Executive Officer 020 7148 5000

*Allenby Capital Limited (Nominated Adviser)*

Edward Hutton/Nick Naylor, 020 3328 5656

*About Nasstar plc*

Nasstar (<http://www.nasstar.com>) provides hosted desktop and hosted exchange cloud computing services, 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's Alternative Investment Market in December 2005 (AIM: NASA).

### **Chairman's Statement**

The cloud computing market seems to be gathering real momentum and the Board believe that the Company is now well positioned to play a significant part in driving the growth in the market with a growing number of partners now introducing the Company's cloud services to their own customers. Current trading is positive and the sales pipeline from both the partner programme and direct sales gives us confidence for the Company's prospects during the current financial year. 2009 was clearly a challenging year for management due to both the aborted transaction and the business downturn of the wider economy. Moving on, we have strong foundations on which to capitalise on the opportunities that will present themselves as the acceptance of cloud computing becomes more widespread. The Directors view the future with optimism.

Lord Daresbury

Chairman

21 December 2009

### **Chief Executive's Review**

#### *(a) Operating and financial review*

As noted above, reported turnover was slightly below last year but showed 20% invoiced sales growth after taking into account a reduction in accrued income for long term contracts. In 2008 approximately £500,000 of turnover was accrued at the start of certain long term contracts in applying the accounting policy that revenue is recognised in accordance with the value of work performed. In respect of a number of contracts signed during the 2008 year, there was substantial front loaded work carried out as the infrastructure and staff time necessary to set up these services were incurred. In the 2009 year, as a result of improved infrastructure, provisioning processes and partner sales there was only a small requirement to accrue revenue in this way with approximately £100,000 being accounted for during the early part of the year. After adjusting for these changes invoiced turnover increased by £400,000 during the period.

#### *Subscribers*

The number of subscribers for both Nasstar Hosted Desktop and Hosted Exchange grew during the year and has continued to grow in the current period:

- Hosted Desktop subscribers as at 30 September 2009: 1,149 (2008: 508)

- Hosted Desktop subscribers as at 30 November 2009: 1,281 (2008: 546)
- Hosted Exchange subscribers as at 30 September 2009: 9,151 (2008: 7,726)
- Hosted Exchange subscribers as at 30 November 2009: 9,402 (2008: 8,359)

#### *Partner Programme*

After a long period of planning and development, we initiated the partner programme during the year. The Board believes 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 Hosted Desktop under their own brand. We have developed a 'white label' version so that partners can market and deliver the service under their own brand and domain name. We have produced sales and technical training documentation and courses and have begun to see real traction with a number of partners now delivering sales. We are confident the number of partners and the sales they generate will continue to grow in the current year. We are in the process of launching a new site for partners at [www.hosteddesktop.co.uk](http://www.hosteddesktop.co.uk).

#### *Operations*

Overall we have reduced a number of overheads in the business that have not affected our ability to grow our customer base and deliver high levels of customer service. Examples include our own office connectivity costs and the costs of professional advisers that are required for an AIM-traded company. Two directors left the business in July and there are no plans at present to replace them. We have maintained fairly constant levels of both sales and technical employees.

#### *(b) Market review*

##### *The cloud computing market*

The cloud computing market covers a broad spectrum of services and represents a dramatic change in the landscape of information technology. Cloud computing is part of a larger trend of more and more services being delivered online and converging in the cloud, such as music, TV, radio and telephone. To understand where Nasstar Hosted Desktop fits in this arena it is necessary to set out a brief overview of this new 'cloudscape'.

##### *Infrastructure as a Service (IaaS)*

Under the umbrella of cloud computing we see data centre companies who have traditionally operated on the basis of just space rental now seeking to provide "Infrastructure as a Service" (IaaS) whereby you can rent not just floor space but processing power and storage. Also in this space are large corporations such as Amazon Web Services and Microsoft. Amazon Web Services are in the market to supply processing power and storage which a customer can rent on-demand. Microsoft's Azure platform aims to compete with Amazon, offering customers the ability to buy on-demand Microsoft operating system, processing power and storage from a Microsoft data centre. Certain hardware manufacturers are also in the cloud computing space by offering services bundled up with their hardware. It seems clear that the traditional boundaries of hardware manufacture, software vendor and data centre operator are being eroded at a fast pace with everything converging as a service 'in the cloud'. The expression "Platform as a Service" (PaaS) is used to describe a cloud service that offers the customer the ability to host applications on a platform that you buy on-demand. In this respect it is covered by the broad description afforded to IaaS.

##### *Software as a Service (SaaS)*

This is where Nasstar Hosted Desktop sits. The two key defining characteristics of SaaS are (1) the software is delivered online, hosted by a SaaS provider, rather than being installed on a local machine or server, and (2) payment is on a usage basis rather than buying a perpetual software license. SaaS provides an alternative to traditional software delivery which was in a box with the customer investing capital in a perpetual right to use that version of the software (usually with annual fees for support and maintenance of the software). With SaaS you are paying for what you use on a monthly basis and the fees cover support and maintenance of the application. In the SaaS market we see traditional box software vendors such as Sage and Microsoft now offering their applications on a SaaS basis. There are also SaaS providers that have been set up on day one as SaaS only, such as Salesforce.com. Google offers SaaS providing hosted applications such as Google Apps and Google Mail.

Nasstar Hosted Desktop is a SaaS provider (though some industry commentators also refer to what we do as Desktop as a Service (DaaS)), delivering a hosted Windows desktop online together with Microsoft Office Professional, Outlook Exchange email and other applications that the customer uses; all delivered online and accessed through a web browser or on a windows mobile device or iPhone.

In terms of "hosted desktop" the market is predicted to grow at a fast rate. Gartner released a research note in March 2009 which predicted a growth in "hosted virtual desktops" from 500,000 units currently to 49 million units worldwide by 2013, creating a global market worth US\$65 billion by 2013.

Putting market research and predictions to one side, in my opinion the market is growing quickly now. My opinion is based on a number of factors including the emergence of competition, which we welcome, the number of enquiries we receive directly and the interest that a growing number of partners have in delivering Hosted Desktop to their customers. These factors provide the clearest indication that the market is now moving on from its early adoption phase. We are finding that partners are approaching us with real opportunities where they have customers asking for a hosted desktop service.

#### *Nasstar Hosted Desktop - background and developments*

Nasstar Hosted Desktop was first launched in 2004. Since then the Company has continued to develop the service, focussing on scalability, user experience and flexibility. A number of new features have been added to Nasstar Hosted Desktop this year including the ability to access it on the Apple iPhone and a multi-language version. In addition there has been planning and development of future service enhancements that the Company intends to release in 2010. These developments are commercially sensitive; details will be made public as and when they are released.

#### *Nasstar's relationship with Microsoft and Citrix*

It is worth examining this in outline to make it clear how Nasstar fits in. Nasstar is a Microsoft Gold Certified Partner and licenses Microsoft software under its Service Provider License Agreement (SPLA). Microsoft Windows, Office Professional and Exchange email are at the core of Nasstar Hosted Desktop, but the important point to make is that it is not just a Microsoft solution. In addition to the core Microsoft applications that come as standard with Nasstar Hosted Desktop, other software vendor applications are also hosted and delivered to the customer's hosted desktop. The customers provide their own licensing for these and Nasstar provides the hosting infrastructure to deliver the applications to their desktops. Invariably each customer who adopts Nasstar Hosted Desktop also has one or more other applications, such as Sage accounting or Salesforce CRM or other industry or company specific software. Nasstar Hosted Desktop has created the infrastructure to ensure these additional applications can be hosted and delivered as part and parcel of the service. 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 also applications supplied by other software vendors. We believe this approach provides a more future proof approach as large software vendors will not be interested in hosting other vendors' software, thereby requiring an intermediary service provider such as Nasstar to package up the different applications and deliver them to the end customer as a cloud service.

Citrix technology is used by Nasstar as part of the Hosted Desktop solution and Nasstar is a Citrix Service Provider Partner. Nasstar was the only UK company to pilot Citrix's SPLA programme between June 2008 and May 2009 following which Citrix decided to make the programme available for everyone. Nasstar's participation in the pilot was confidential and commercially sensitive. In addition to providing Nasstar and other service providers with their XenApp product, Citrix also provide XenDesktop and GoToMyPC. These products are different to Nasstar Hosted Desktop and the difference is explained below in the section on competition.

#### *Competition*

We have seen the emergence of a number of competitors over the last year. The presence of competition is a clear indicator of the growing market and it benefits Nasstar by raising awareness of the product and validating it. None of our UK hosted desktop competitors are quoted and they do not make their user numbers public. Nasstar, being publicly quoted, is delighted to publish its user numbers, so the competition can see how we are doing. Nasstar has clearly established a strong reputation in the market place evidenced by the inbound interest from potential partners and customers.

Nasstar uses Citrix XenApp as the means by which Nasstar Hosted Desktop is accessed. Citrix also provide a product called Citrix XenDesktop and a TV advertised product called GoToMyPC. Citrix XenDesktop is a virtual desktop product which takes the whole desktop operating system and hosts it in a virtualised server environment. This differs from Nasstar Hosted Desktop which only publishes a desktop 'theme' based on Windows server. Nasstar Hosted Desktop does not therefore deliver the entire operating system to the end user but instead delivers the look and feel of a Windows desktop but without the ability of the end user to change their desktop environment. In a sense therefore Nasstar Hosted Desktop is a 'locked down' desktop rather than the whole operating system delivered by XenDesktop. There are therefore some significant differences in respect of XenApp and XenDesktop. In our view, whilst XenDesktop will appeal to certain customers, Nasstar Hosted Desktop is more scalable and is likely to carry a much lower support cost. As regards GoToMyPC, this product enables you to remotely access you office PC through establishing a remote connection through a web browser. This is a very different proposition to Nasstar Hosted Desktop as it pre-supposes the existence of PC at your workplace or home which has your data and applications installed on it. In summary this product simply connects you to your existing on-premise environment and therefore does not provide many of the benefits of Nasstar Hosted Desktop such as removal of capital expenditure and secure hosting of your business data in the cloud environment.

#### *Nasstar Hosted Desktop - product summary and benefits*

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 in the cloud. 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 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 Microsoft 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 and given that asset finance is increasingly scarce, this would seem to be 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 data centre rather than on local PCs and laptops. We believe that the removal of data from local machines to a secure cloud environment reduces the risk of lost or stolen 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 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, or even from an iPhone. 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 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.

Charles Black  
Chief Executive Officer  
21 December 2009

## Consolidated Income Statement

for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Revenue		2,018	2,101
Cost of sales		(912)	(495)
Gross profit		1,106	1,606
Operating and administrative expenses		(1,734)	(1,659)
Exceptional items	2	(91)	-
Share-based payments		(33)	(28)
Total operating and administrative expenses		(1,858)	(1,687)
Other operating income		-	113
Operating (loss)/profit		(752)	32
Finance expenses		(190)	(161)
Loss before taxation		(942)	(129)
Taxation		3	(3)
Loss for the year		(939)	(132)
Loss per share:			
Basic and diluted	3	(5.6)p	(0.9)p

All amounts relate to continuing operations.

## Consolidated Balance Sheet

30 September 2009

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	844	844
Intangible assets	196	153
Property, plant and equipment	415	421
Deferred taxation	175	175
	<hr/> 1,630	<hr/> 1,593
<b>Current assets</b>		
Trade and other receivables	468	533
Cash and cash equivalents	400	65
	<hr/> 868	<hr/> 598
<b>Total assets</b>	<hr/> 2,498	<hr/> 2,191
<b>Equity and liabilities</b>		
<b>Capital and reserves attributable to equity holders of the parent</b>		
Share capital	319	161
Share premium	2,404	1,472
Merger reserve	662	662
Retained deficit	(2,215)	(1,309)
<b>Total equity</b>	<hr/> 1,170	<hr/> 986
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	94	110
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	162	195
Trade and other payables	1,072	900
	<hr/> 1,234	<hr/> 1,095
<b>Total equity and liabilities</b>	<hr/> 2,498	<hr/> 2,191

## Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Merger Reserve	Retained deficit	Total equity
	£	£	£	£	£
At 1 October 2007	145	1,031	662	(1,205)	633
Loss for the year recognised in profit and loss	-	-	-	(132)	(132)
Total recognised income and expense in the year	-	-	-	(132)	(132)
Shares issued in year	16	441	-	-	457
Share-based payment recognised in equity	-	-	-	28	28
At 1 October 2008	161	1,472	662	(1,309)	986
Loss for the year recognised in profit and loss	-	-	-	(939)	(939)
Total recognised income and expense in the year	-	-	-	(939)	(939)
Shares issued in year	158	932	-	-	1,090
Share-based payment adjustment	-	-	-	33	33
At 30 September 2009	319	2,404	662	(2,215)	1,170

## Consolidated Cash Flow Statement

Year ended 30 September 2009

	2009 £000	2008 £000
<b>Cash flow from operating activities</b>		
Operating (loss)/profit before taxation	(752)	32
Adjustments for:		
Depreciation and amortisation	400	322
Share-based payments	33	28
Profit on sale of plant and equipment	-	(113)
Corporation taxes paid	3	(3)
<b>Net cash flow from operating activities before changes in working capital</b>	(316)	266
Decrease/(increase) in trade and other receivables	65	(219)
Increase in trade and other payables	172	88
<b>Net cash flow generated from operating activities</b>	(79)	135
<b>Investing activities</b>		
Payments for intangible assets	(160)	(206)
Payments for property, plant and equipment	(277)	(399)
Proceeds from the sale of property, plant and equipment	-	115
<b>Net cash flow from investing activities</b>	(437)	(490)
<b>Financing activities</b>		
Issue of ordinary shares	1,090	457
Proceeds from lease-finance arrangements	239	235
Repayment of lease-finance arrangements	(288)	(119)
Interest paid	(190)	(161)
<b>Net cash flow from financing activities</b>	851	412
<b>Net increase in cash and cash equivalents in the year</b>	335	57
Cash and cash equivalents at the beginning of the year	65	8
<b>Cash and cash equivalents at the end of the year</b>	400	65

## **1 Basis of preparation**

Whilst the financial information included in this announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not contain sufficient information to comply with IFRS. The Company will publish full financial statements that comply with IFRS in January 2010.

The financial information set out in the announcement does not constitute the Company's statutory accounts for the year ended 30 September 2009 or the year ended 30 September 2008. The financial information for the year ended 30 September 2008 are extracted from the statutory accounts of Nasstar plc. The auditors, Gerald Edelman, reported on those accounts; their report was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The summarised balance sheet at 30 September 2009 and the summarised income statement, summarised cash flow statement and associated notes for the year ended have been extracted from the group's financial statements. Those financial statements have not yet been delivered to the Registrar, nor have the auditors reported on them.

The 2009 accounts have been prepared on a basis consistent with the accounting policies set out in the 2008 accounts.

## **2 Exceptional items**

Exceptional items comprise costs of £91,000 incurred by the company relating to a transaction with a third-party that was not completed.

## **3 Loss per share**

The calculation of the basic loss per share arising is based upon the loss after tax attributable to ordinary shareholders of £939,000 (2008: loss £132,000) and a weighted average number of shares in issue for the year of 16,776,227 (2008: 14,786,768).

The diluted loss per share in 2009 and 2008 is the same as the basic loss per share as the losses have an anti-dilutive effect.

**4** The directors do not recommend a dividend for the year.

## **5 Annual General Meeting**

The Company's Annual General Meeting will be held on 10 February 2010 at 10.30 a.m. at the Company's registered office.