



29 September 2003

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 June 2003

NETCALL PLC

Preliminary results for the year ended 30 June 2003

FLAGSHIP PRODUCT REALISING PROFITABLE GROWTH

Netcall develops and supplies call centre software and systems, including the market leading queue management product, QueueBuster™.

1. Threefold increase in Sales to £2.39 million (2002: £0.81 million)
2. Threefold increase in Gross Profit to £1.88 million (2002: £0.63 million)
3. 19% reduction in operating expenses
4. Loss on ordinary activities before tax reduced to £0.33 million (2002: loss £2.40 million)
5. Pre-tax profit on ordinary activities of £0.16 million achieved in the second half of the year
6. £1.5 million BT contract signed to supply QueueBuster in May 2003
7. Embarking on an international expansion strategy
8. Signed first Asian distribution agreement with Digiberry, a Japanese technology distribution company, via JV Netcall Asia Pacific

Ron Elder, Netcall Chairman, commented:

"These are encouraging results as we begin to see real returns from our market leading product, QueueBuster. It provides clear advantages for our customers in terms of improving their customer satisfaction and reducing their operating costs."

"We are confident of delivering positive results from our investment programme early in 2004 as we exploit the opportunities within QueueBuster's core customer base, widen our international distribution and develop prospects in the small call centre sector."

29 September 2003

Chairman's Statement

Results

Sales and gross profits increased threefold, driven by our principal call centre technology product, QueueBuster. QueueBuster cuts queues by enabling callers to request a call back. Combined with a 19% reduction in operating expenses, losses before taxation were substantially reduced to £0.33 million. (2002: loss £2.40 million).

More significantly the Group became profitable in the second half of the year with sales of £1.56 million delivering pre-tax profit of £0.16 million. Loss per ordinary share for the year has been reduced to 0.6p (2002: loss 6.35p).

In August 2002 the company raised £0.97 million net of costs by means of a placing. Currently the company has a cash balance in excess of £0.5 million.

Typical QueueBuster contracts are signed for a three-year period. At the year-end Netcall had contracted future revenues and deferred income of £1.1 million of which £0.42 million will be executed in the current financial year.

Operations

The company has been able to build on the successes of the first half of the year, and QueueBuster has continued to justify our confidence in its international potential.

The highlight of the year was the £1.5 million contract in May 2003 to supply BT with QueueBuster for three years, including an initial substantial payment. Since the trial and selling process is typically of a long duration, the endorsement of major corporations of the calibre of BT has been an important step forward. Larger corporations with multi-site call centre operations are attractive since they are more likely to place repeat orders. Clients who have bought the product during the year include The Cooperative Bank, Linklaters, Royal and Sun Alliance, Vertex Data Sciences, United Utilities as well as BT.

So far all of Netcall's customers with multi-site operations have ordered more than one system. QueueBuster's strengths were further verified by repeat orders during the year from BT, The Cooperative Bank and Vertex.

We have continued with our international growth strategy. Our joint venture with Committed Capital, in the Asia Pacific region has signed Digiberry as a Japanese distributor and a trial system has been operational in Japan for over eight weeks. We expect to be installing a similar system in Australia shortly. We also now have our first trial system in the USA.

Strategy and Prospects

We aim to capitalise on our leading market position and over the past three months have further strengthened the team.

During the last quarter, the management has focussed on developing a strategy aimed at creating a smoother revenue stream for the company. Since the selling process for the QueueBuster product is lengthy, owing to a substantial initial capital outlay requirement, Netcall has adopted a broader marketing approach using international partnerships and distribution agreements. Discussions with a number of parties with distribution capability have been encouraging, both in the UK and internationally.

We also plan to exploit the leading position of QueueBuster by providing a managed service variation for smaller call centres with less than 100 seats. The new application reduces customer's initial capital investment and will provide Netcall with an additional revenue stream.

The current financial year has started well. We have already completed two successful trials in Ireland and the UK; the latter has resulted in an order from Legal and General Insurance. We have an order for our first Spanish trial in October and a pilot system is installed in Japan through our joint venture with Committed Capital. Our high conversion rate from trials to sales allows us to

be confident of sales volumes but long decision cycles continue to make actual contract timings difficult to forecast.

The Board is confident of delivering positive results from our investment programme early in 2004.

Review of Operations

Significant progress has been achieved during the year and it is clear that our QueueBuster product delivers exceptional value to our customers. Not only does it result in significant increases in customer satisfaction levels but our customers also benefit from reduced operating expenses. The concept of allowing callers caught in a queue to arrange a call-back is now better understood but typically users are still surprised when their call comes back in less time than they had expected. The product is gathering credibility in our target markets and our prospect pipeline grows monthly.

In a market that has been resistant to both increased capital investment and new technology, we've achieved ambitious sales and gross margin goals. QueueBuster systems have been implemented rapidly and benefit from universal switch compatibility.

We have also focussed on tight resource management and we are particularly pleased to have reduced operating costs, whilst maintaining sales momentum.

Development and infrastructure

The technical team has concentrated on developing new features for QueueBuster to enable customers to understand, manage and control queues to greater effect.

During the year the product was successfully integrated with an internal network for the first time at BT which demonstrates the flexibility and compatibility of QueueBuster in all switch environments.

Since the year-end we have bolstered all operational divisions of the company in preparation for increased demand via distribution channels both in the UK and internationally. This will enable us to expand rapidly and extend our market breadth as many of the distribution partners will have expertise in market segments as yet untapped by the company directly.

The technical and operations teams have continued to support our service-based infrastructure that will be used to deliver our QueueBuster Service offering to a wider prospect base. A significant amount of development work has followed initial beta trials of this QueueBuster variant and we have received very positive feedback from trial users. The stability and scalability of our service infrastructure has continued to be very satisfactory giving us confidence in our ability to roll out this and future service-based programmes efficiently.

Sales and Marketing

Installing QueueBuster represents a capital investment usually requiring a lengthy trial and sales process of between six to nine months. To ensure adequate returns Netcall has targeted larger corporations operating multi-site call centres, with the capacity to place repeat orders.

This has been a very successful strategy as, over the year, we maintained our record with 100% of QueueBuster trials converting to orders. Additionally, all multi-site call centre customers have installed at least two systems and we are confident of further repeat orders. We are particularly

pleased that the original pilot systems installed for BT resulted in the placing of the £1.5 million order for multiple systems in May. We have concentrated on companies in the financial, telecommunications and utilities markets and have devoted considerable energy to understanding the product benefits delivered as well as managing the product in-situ. As a result we now have a powerful reference base and replicable sales model, which will enhance our development into new markets.

We have an ambitious programme for our QueueBuster Service variant, which provides a hosted queue management solution, requiring minimal customer capital investment. We plan to sell QueueBuster capabilities to call centres with less than 100 seats, an opportunity that we believe is about twice the size of the product market we have been addressing to date. Initial sales will be made via our direct sales force but we anticipate a swift move to distribution and consequential rapid expansion. We are expecting this business to have radically shorter sales cycles and a growing recurring revenue stream.

NETCALL PLC

Consolidated Profit and Loss Account

Year ended 30 June

NETCALL PLC

Consolidated Profit and Loss Account

Years ended 30 June

	Notes	2003	2002
			As restated
		£	Note 4
			£
Turnover	1	2,387,203	807,564
Cost of sales		(505,843)	(181,331)
Gross profit		<u>1,881,360</u>	<u>626,233</u>
Administration expenses (including exceptional reorganisation costs of £120,633 (2002- £nil))		(2,225,310)	(2,745,779)
Operating loss		<u>(343,950)</u>	<u>(2,119,546)</u>
Interest receivable		14,807	74,183
Amounts written off investments		-	(350,000)
Interest payable and similar charges		(2,634)	(531)
Loss on ordinary activities before taxation		<u>(331,777)</u>	<u>(2,395,894)</u>

Tax on loss on ordinary activities	2	-	92,110
Loss for the financial year		<u>(331,777)</u>	<u>(2,303,784)</u>
Loss per ordinary share	3	(0.6p)	(6.35p)
Diluted loss per ordinary share	3	(0.6p)	(6.35p)

All activities derive from continuing operations.

		2002
	2003	As restated
	£	£
Loss for the financial year	(331,777)	(2,303,784)
Currency translation differences on foreign currency net investments		
	<u>9</u>	<u>17,097</u>
Total recognised gains and losses for the year	(331,768)	<u>(2,286,687)</u>
Prior year adjustment (refer to note 4)	<u>(53,667)</u>	
Total gains and losses recognised since last annual report and financial statements	<u>(385,435)</u>	

NETCALL PLC

Consolidated Balance Sheet At 30 June

	2003	2002
		As restated
	£	Note 4
		£
Fixed assets		
Intangible assets	-	19,315
Tangible assets	186,395	193,742
Investments	-	-
	<u>186,395</u>	<u>213,057</u>

Current assets

Stocks	58,924	50,500
Debtors within one year	1,386,872	335,492
Cash at bank and in hand	278,310	149,514
	<u>1,724,106</u>	<u>535,506</u>
Creditors: amounts falling due within one year	(1,020,272)	(489,937)
	<u>703,834</u>	<u>45,569</u>
Net current assets	703,834	45,569
Total assets less current liabilities	890,229	258,626
Creditors: amounts falling due after more than one year	-	(393)
	<u>890,229</u>	<u>258,233</u>
Capital and reserves		
Called up share capital	2,836,513	1,814,513
Share premium account	14,458,444	14,516,680
Special and capital reserves	245,055	245,055
Profit and loss account	(16,649,783)	(16,318,015)
	<u>890,229</u>	<u>258,233</u>
Equity shareholders' funds	890,229	258,233

NETCALL PLC

Consolidated Cash Flow Statement At 30 June

	2003		2002	
	£	£	£	£
Net cash outflow from operating activities		(739,077)		(1,804,224)
Returns on investments and servicing of				
Finance				
Interest element of finance lease rental payments		(286)		(415)
Interest received		14,807		74,183
Bank interest paid		(100)		(116)
Other interest		<u>(2,248)</u>		<u>-</u>
Net cash inflow from returns on investments and servicing of finance		12,173		73,652

Taxation repaid	-	88,981
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Capital expenditure and financial

Investment

Payments to acquire intangible fixed assets	-	(7,822)
Payments to acquire tangible fixed assets	(72,319)	(25,924)
Receipts from sales of tangible fixed assets	-	787

Net cash outflow from capital expenditure and financial investment

(72,319)	(32,959)
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Net cash outflow before use of liquid resources and financing

(799,223)	(1,674,550)
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Management of liquid resources

Decrease in short-term bank bonds	15,000	1,250,000
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Financing

Capital element of finance lease rental payments	(1,714)	(1,585)
Issue of new shares	1,022,000	-
Expenses of issue of ordinary share capital	(58,236)	(1,700)

Net cash inflow (outflow) from financing

962,050	(3,285)
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Increase (decrease) in cash

177,827	(427,835)
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NETCALL PLC

Notes to the Accounts

1. Analysis of turnover

	2003	2002 As restated Note 4
	£	£
Analysis of turnover by class of business		
QueueBuster sales	1,859,566	313,334
QueueBuster support and maintenance	202,894	65,648
Telephony services	322,998	427,018

Commission and sundry income	<u>1,745</u>	<u>1,564</u>
	<u>2,387,203</u>	<u>807,564</u>

All of the turnover arose from activities carried out in the United Kingdom.

Geographical analysis of turnover by destination:

	2003	2002
		As restated
		Note 4
	£	£
United Kingdom	2,370,288	754,447
North America	7,540	36,290
Rest of Europe	6,520	13,959
Rest of World	2,855	2,868
	<u>2,387,203</u>	<u>807,564</u>

2. Tax on loss on ordinary activities

The Corporation Tax receivable in 2002 arose from the availability of a tax credit of Netcall Telecom Limited's expenditure on research and development activities.

3. Loss per ordinary share

The calculation of loss per ordinary share for the current year is based on the loss for the year of £331,777 (2002 - £2,303,784 as restated) and the weighted average number of ordinary shares of 0.5p each of 54,490,267 (2002 - 36,290,267). FRS 14 requires that potential ordinary shares should strictly be treated as dilutive when they increase net loss per share. Since the group has reported losses, its basic and diluted loss per share are therefore equal.

4. Prior year adjustment

During the year the group changed its accounting policy for maintenance and support income for the first year of a supply agreement. Previously this income had been recognised in full upon installation of the system. The current policy is to spread the first year support and maintenance revenue over the year rather than in full upon installation. As a consequence of the company changing its accounting policy in this regard, a prior year adjustment has resulted and the prior year results restated accordingly.

The effect of the prior year adjustment is as follows:

	2002
	£
Turnover	
Turnover as previously stated	861,231
Effect of prior year adjustment	(53,667)
Turnover as restated	<u>807,564</u>
Increase in loss for financial year	<u>(53,667)</u>
Accruals and deferred income	
Accruals and deferred income as previously stated	148,667
Effect of prior year adjustment	53,667
Accruals and deferred income as restated	<u>202,334</u>
Decrease in net assets	<u>(53,667)</u>

5. The Directors do not recommend payment of a dividend.

6. The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 30 June 2003 or 2002. The financial information for the year ended 30 June 2002 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 30 June 2003 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's Annual General Meeting.

The financial information is prepared on the basis of accounting policies as stated in the previous year except as detailed in note 4.

7. Copies of the full statutory accounts will be despatched to shareholders in due course. Further copies will be available from the Registered Office of the Company at 10 Harding Way, St Ives, Cambs PE27 3WR.

Visit www.netcall.com for further information.