

**Mediasurface plc****Final Results for the Year Ended 30<sup>th</sup> September 2007**

Mediasurface plc, (AIM: MSR) (the "Group" or the "Company") the AIM listed Content Management Software Author and Vendor announces results for the year ended 30<sup>th</sup> September 2007.

**Financial and Operating Highlights**

- Turnover increased
  - Overall by 17 per cent. to £11.28 million (2006 : £9.67 million)
  - On a pre-acquisition basis Turnover increased 5 per cent.
- Annual value of contracted support revenues of £4.26 million including the addition of £1.0 million in Immediacy (2006 : £2.50 million)
- Reported EBITDA loss before FRS20 Share Option charges of £1.30 million (2006 : profit of £0.97 million)
- The loss reported includes Pepperio losses of £1.06 million
- Cash of £1.78 million as at 30th September 2007 (2006 : £1.08 million)
- Continued investment in software development of £1.15 million (2006 : £1.37 million)
  - Released new versions of Mediasurface Morello 5.5 in January 2007 and 5.6 in August 2007
  - Further leveraged benefit of Indian R&D centre

**Chairman's Statement**

The Group achieved revenues of £11.28 million (2006: £9.67 million), up 17 per cent. compared to last year including the acquisition of Immediacy Limited. The Group reported an EBITDA loss excluding non-cash exceptional items of £1.30 million (2006: profit £0.97 million) for the full year.

During the year the Group lost £1.06 million on providing the Pepperio roll-out. Excluding this investment and the investment in US expansion, the Group was break-even at EBITDA level.

As at 30th September 2007 the Group had £1.78 million (2006 : £1.08 million) in cash excluding a three year term loan due of £1.90 million (2006 : £nil)

In July 2007 the Group concluded the acquisition of Immediacy Limited which added a new product to the Group's product portfolio addressing the medium sized enterprise market. The business has enjoyed significant growth in this market sector and this continued to be the case post acquisition, reporting results slightly ahead of expectations during the last quarter.

Morello had a mixed year. Having enjoyed a profitable first half, reporting significant wins at the Foreign and Commonwealth Office and Office of Fair Trading, the second half proved to be more challenging. The Group had anticipated that the launch of Microsoft Office Sharepoint Server (MOSS) 2007 would be a disruptive event in the Morello market and to counter this developed an innovative MOSS Connector to allow customers to leverage MOSS content in Morello. The Group experienced extended sales cycles whilst customers digested the merits of MOSS 2007 who eventually concluded that the Microsoft product did not meet the needs of Enterprise Content Management. In addition, sales opportunities in the Group's financial vertical were also delayed by the turmoil in the Financial Markets toward the end of our financial year. As a consequence, Morello revenues grew by a modest 5 per cent. compared to last year.

In line with stated policy, earnings for the foreseeable future will be reinvested to finance the growth of the Group and acquisition strategy. Consequently the Directors do not recommend the payment of a dividend. (2006 : £Nil)

The Board is now confident that the Group's prospects are much improved as a result of the cost savings made. We now have every reason to believe that further progress will be achieved based on an encouraging start to the new financial year.

In conclusion I would like to express my appreciation to all the management, staff and shareholders for their continued support during the year.

Michael Jackson  
Chairman  
18th February 2008

## **Chief Executive's Statement**

The year ended 30<sup>th</sup> September 2007 was characterised by two very different halves to the year. In the first half the Company delivered revenues of £6.06 million and an EBITDA of £0.47 million. This was based on continued strong sales successes around the major Morello product line, coupled with exceptionally strong demand for professional services and a growing pre-contracted maintenance annuity stream. During the half, the business enjoyed a number of high profile, high value new business sales wins including the Foreign and Commonwealth Office, the Office of Fair Trading and VRT, a major Belgian broadcaster.

The second half of the year was much more challenging for the core Morello business. The professional services and maintenance revenue streams remained very strong with continued high demand for services and continued growth in the pre-contracted revenues for maintenance. The company ended the year with an annualised pre-contracted run rate of £3.26 million (2006: £2.50 million) for the Morello maintenance stream. The situation in Morello licence sales was however much more difficult. There were two principal contributing market factors which had a much greater impact on the sales result than had been anticipated by the management. Firstly the launch of MOSS 2007 in April resulted in a much greater marketplace overhang than expected. As a direct result, sales cycles were heavily delayed while customer's internal teams were distracted into evaluating MOSS as a potential solution to their web content management needs. In reality MOSS was deemed not a suitable product by the vast majority of potential customers and no deals were lost to MOSS, however the delays and associated sales efficiency impacts within the business did have a significant negative impact on the expected top line revenue.

The second key impact was less predictable. The effect of the "credit crunch" following on from the issues in the USA with respect to the sub-prime market resulted in uncertainty in one of our key markets, financial services. The effect of this so close to the year end on a market that typically represents approximately 25 per cent. of our revenues was dramatic as prospects suspended, postponed or delayed a significant number of sales cycles.

### Pepperio

The Pepperio product line had a disappointing year after a very promising start. The early encouraging signs persuaded management to continue to invest in channel establishment and a high growth strategy. Unfortunately the channel strategy proved successful from a channel partner recruitment perspective but, with a few notable exceptions, the channel proved not so successful from a sales execution standpoint. The resulting numbers of customers, whilst continuing to grow, was disappointing in the second half of the year and consequently, following the trading announcement in October 2007, significant cost reduction initiatives were implemented. The core Pepperio proposition remains compelling to both customers and partners

alike and holds the long term prospect for the group of a secure annuity style revenue from the Software as a Service (SaaS) model. Expectations have accordingly been reset within the business and the costs associated with the product line dramatically reduced.

## Acquisition

Also in the second half and on a far more positive note, the Company acquired Immediacy Limited, a UK based provider of Web Content Management Software to two sectors; mid-sized companies where the solution is deployed as the strategic web platform and within larger organisations where the solution is acquired tactically to support departmental or project based initiatives. Immediacy sits well within the overall product line up of Mediasurface and has enjoyed previous years of growth and success. In the first quarter of ownership of Immediacy within the group, the business slightly exceeded expectations and is now a major contributor to the plc representing around 30 per cent. of the overall business. The profile of the Immediacy revenue stream is the same as Morello (namely, licence sales, professional services and maintenance) but the fact that it is a lower price, higher volume model assists the group in reducing the risks associated with the very high value but less frequent licence transactions in Morello.

## Fundraising

The Company is pleased to advise that it is today announcing alongside the preliminary results a proposed placing of 15,000,000 new ordinary shares of 1p each in the Company ("Placing Shares") at a placing price of 5p per share (the "Placing Price") to raise approximately £750,000 (the "Placing"). The proceeds from the Placing will be used to augment the Company's working capital and provide customers and employees with confidence in Mediasurface's long-term growth prospects.

## Current Trading and Prospects

The Group's first quarter trading of the new financial year, the 3 months ended 31st December 2007, made a modest un-audited EBITDA profit excluding the rationalisation and non-recurring costs for Pepperio of some £0.18 million. As at 31<sup>st</sup> December 2007 the Group's cash position stood at £0.42 million excluding the term loan of £1.75 million.

The Group continues to implement judicious cost reductions including leveraging the full benefits of the Indian R&D centre which together represent cost savings of £2.0 million compared to last financial year. The Directors are confident the Group is now in a position to achieve full year results in line with management expectations.

Lawrence Flynn  
Chief Executive Officer  
18<sup>th</sup> February 2008

## Consolidated Profit and Loss Account Year ended 30<sup>th</sup> September 2007

	2007 £	As Restated 2006 £
<b>TURNOVER</b>		
Existing operations	10,143,829	9,670,713
Acquisition	1,139,701	-
	<hr/>	<hr/>
Continuing operations	11,283,530	9,670,713
 Cost of sales		
Existing Operations	(998,110)	(355,044)
Acquisition	(111,163)	-
	<hr/>	<hr/>
Continuing operations	(1,109,273)	(355,044)
 Gross profit		
Existing Operations	9,145,719	9,315,669
Acquisition	1,028,538	-
	<hr/>	<hr/>
Continuing operations	10,174,257	9,315,669
 Operating expenses		
Existing Operations	(11,006,918)	(8,549,062)
Acquisition	(893,190)	-
	<hr/>	<hr/>
Continuing operations	(11,900,108)	(8,549,062)
 <b>OPERATING (LOSS)/PROFIT</b>		
- Existing Operations	(1,861,199)	766,607
- Acquisition	135,348	-
	<hr/>	<hr/>
Continuing operations	(1,725,851)	766,607
 Interest receivable	34,492	7,322
 Interest payable and similar charges	(59,904)	(78)
	<hr/>	<hr/>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	(1,751,263)	773,851
 Tax charge on (loss)/profit/ on ordinary activities	-	(54,314)
	<hr/>	<hr/>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR</b>	(1,751,263)	719,537
	<hr/> <hr/>	<hr/> <hr/>
 <b>(Loss)/Profit per share – basic</b>	(2.1)p	0.9p
<b>(Loss)/Profit per share - diluted</b>	(2.1)p	0.8p

## Consolidated Statement of Total Recognised Gains/Losses

	2007 £	As restated 2006 £
(Loss)/Profit for the financial year	(1,751,263)	719,537
Profit/(Loss) on foreign currency translation of equity investments in overseas subsidiaries	80,197	(50,437)
<b>Total recognised (losses)/gains relating to the year</b>	<b>(1,671,066)</b>	<b>669,100</b>
Prior Year Adjustment	195,896	-
Total gains and losses recognised since last annual report	(1,475,170)	669,100

## Consolidated Balance Sheet 30<sup>th</sup> September 2007

	Note	2007 £	As restated 2006 £
<b>FIXED ASSETS</b>			
Intangible Assets	4	4,977,313	161,419
Tangible assets		331,022	231,639
		5,308,335	393,058
<b>CURRENT ASSETS</b>			
Debtors		3,934,054	3,499,892
Cash at bank and in hand		1,775,895	1,080,487
		5,709,949	4,580,379
<b>CREDITORS: amounts falling due within one year</b>	5	(4,662,618)	(2,968,698)
<b>NET CURRENT ASSETS</b>		1,047,331	1,611,681
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,355,666	2,004,739
<b>CREDITORS: amounts falling due after more than one year</b>	6	(1,230,142)	(3,994)
<b>NET ASSETS</b>		5,125,524	2,000,745
<b>CAPITAL AND RESERVES</b>			
Called up equity share capital		996,736	772,448
Share premium account		14,160,171	9,638,377
Shares to be issued		644,653	701,222
Capital redemption reserve		13,083,244	13,083,244
Merger reserve		27,297,412	27,297,412
Profit and loss account		(51,056,692)	(49,491,958)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		5,125,524	2,000,745

## Consolidated Cashflow Statement Year ended 30<sup>th</sup> September 2007

	<b>2007</b>	<b>As restated 2006</b>
	<b>£</b>	<b>£</b>
<b>Net cash (outflow)/inflow from operating activities</b>		
Operating (loss)/Profit	(1,725,851)	766,607
Exchange difference on fixed asset translation	(2,515)	809
Depreciation charge	151,767	107,418
Amortisation of Goodwill	127,623	56,022
Impairment charge	93,056	-
Write back of provisional consideration	68,363	-
Decrease/(Increase) in debtors	416,941	(1,140,835)
Increase in Creditors	126,450	1,108,297
FRS20 Share Option charge	49,763	46,794
	<hr/>	<hr/>
Sub total	(694,403)	945,112
	<hr/>	<hr/>
<b>Returns on investment and servicing finance</b>		
- interest payable	(59,904)	(78)
- interest receivable	34,492	7,322
	<hr/>	<hr/>
	(25,412)	7,244
	<hr/>	<hr/>
<b>Capital expenditure – Purchase of Tangible Fixed Assets</b>	(248,635)	(168,976)
	<hr/>	<hr/>
<b>Taxation</b>	-	49,933
	<hr/>	<hr/>
<b>Acquisitions</b>		
Purchase of subsidiary undertaking	(5,390,654)	-
Net cash acquired with subsidiary	796,265	-
	<hr/>	<hr/>
Sub total	(4,594,389)	-
	<hr/>	<hr/>
<b>Financing</b>		
Issue of Share Capital	4,280,915	-
Term loan	2,000,000	-
Repayment of term loan	(98,871)	-
Capital element of finance leases	(3,994)	(5,195)
	<hr/>	<hr/>
Sub total	6,178,050	(5,195)
	<hr/>	<hr/>
<b>Increase in cash in year</b>	<u>615,211</u>	<u>828,118</u>

### Notes :

1. The financial information set out above does not constitute the Group's statutory accounts as defined by section 240 of the Companies Act 1985 for the years ended 30 September 2007 or 30 September 2006 but is derived from these accounts. Statutory accounts for 2006 have been

delivered to the Registrar of Companies in England and Wales and those for 2007 will be delivered following the Company's Annual General Meeting.

The auditors have reported on the 2006 and 2007 accounts. Their reports for both years were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

2. The preliminary announcement of results has been prepared under the historical cost convention in accordance with the Group's accounting policies for the year ended 30<sup>th</sup> September 2007.

### 3. Earnings per Share

The loss per ordinary share is calculated by reference to the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during each period as follows:

	2007	As restated 2006
	£	£
(Loss)/Profit for the year	(1,751,263)	719,537
<b>Basic</b> - weighted average number of shares	81,972,743	77,244,842
<b>Basic</b> – (loss)/profit per Share	(2.1)p	0.9p
<b>Fully diluted</b> - weighted average number of shares	81,972,743	84,714,632
<b>Fully diluted</b> – (loss)/profit per Share	(2.1)p	0.8p

4. Goodwill arose during the year upon the acquisition of Immediacy Limited

5. Creditors due within one year analysed as follows :-

	Group	
	2007	2006
	£	£
Obligations under finance leases	3,994	5,195
Trade creditors	489,712	333,363
Amounts owed to subsidiary undertaking	-	-
Taxation and social security	1,001,954	467,233
Accruals and deferred income	2,495,971	2,162,907
Term Loan	670,987	-
	4,662,618	2,968,698

6. Creditors due after one year analysed as follows :-

	Group	
	2007	2006
	£	£
Obligations under finance leases	-	3,994
Loan	1,230,142	-
	1,230,142	3,994
Borrowings due after one year are repayable as follows:		
	2007	2006
	£	£
<b>Finance leases</b>		
Between one and two years	-	3,994
Between two and five years	-	-
After five years	-	-
	-	3,994
<b>Loans</b>		
In one year or less or on demand	670,987	-
Between one and two year	670,987	-
Between two and five years	559,155	-
After five years	-	-
	1,901,129	-

7. The Annual General Meeting is scheduled to be held at 10am 28th March 2008. Notice will be issued in due course.

8. Copies of the Report and Accounts will be available from 4<sup>th</sup> March 2008 at the Company's offices at Mediasurface House, Newbury Business Park, London Road, Newbury RG14 2QA and at the Company's website [www.mediasurface.com](http://www.mediasurface.com). A copy of the Report and Accounts will be posted to all Shareholders.

For further information please contact:

Lawrence Flynn	Chief Executive Officer
David Deacon	Chief Financial Officer

Telephone : 01635 262000

Adam Reynolds	Hansard Group, Financial PR
---------------	-----------------------------

Telephone : 020 7245 1100

Oliver Scott/Richard Kauffer	KBC Peel Hunt, Nominated Adviser and Broker
------------------------------	---

Telephone : 0207 418 8850