

Mediasurface plc ('MSR') – Company Registration Number – 4016495

Results for the Year Ended 30th September 2006

Mediasurface plc, the AIM listed Content Management Software Author and Vendor announces results for the year ended 30th September 2006.

Financial and Operating Highlights

- Turnover up 42% to £9.67 million (2005 :£6.80 million)
- UK achieved revenue growth of 58%
- USA revenues doubled
- License revenue growth of 61%
- Annualised recurring revenue up 28% at £2.5 million (2005 : £1.95 million)
- Reported operating profit before operating exceptionals of £0.81 million (2005 : loss of £0.54 million)
- Cash of £1.1 million as at 30th September 2006 (2005 : £0.3 million)
- Bank facility increased to £0.5m (2005 : £0.35 million) to provide additional working capital headroom
- Continued investment in software development of £1.37 million (2005 : £1.25 million)
- Released a new version of Mediasurface Morello (5.4) in July 2006
- Pepperio, a new product for the SMB market place, was officially launched in May 2006
- Established a software development centre in Bangalore, India in April 2006
- Established a sales office on the West Coast of the USA
- Pipeline opportunities continue to increase both in quantity and quality

Chairman's Statement

The Group achieved revenues of £9.7m (2005: £6.8m), up 42% compared to last year. This growth was driven by the company's flagship product Morello, license sales increased by an impressive 61% compared to last year which gained further market share in our key verticals. This success is a key driver for consulting and support revenues growth going forward.

During the financial year the Group reported a profit for both the first and second halves. A profit of £0.8m (2005: Loss £0.5m excluding non-cash exceptionals) is reported for the full year. The financial year included major new business wins with the ODPM, Department for Transport, Newstar Asset Management, UCAS and a major pharmaceutical company in addition to numerous mainstream deals.

The Group's cash position stood at £1.1m at year end having generated cash of £0.8m during the year. Given the company also has a £0.5m overdraft facility the financial health and working capital headroom of the Group is the best since flotation.

The Group also launched its new product called Pepperio in May 2006 which is designed to bring the power of content management to the small and medium sized business sector. The product has already been adopted by a growing partner channel and has been successfully implemented by numerous new customers. The revenue stream, which is on a low cost monthly rental basis, represents a new robust revenue stream for the Group.

The Group, as announced at the interims, invested heavily during the second half in Sales & Marketing infrastructure to fully exploit market opportunities for both Morello and Pepperio including expansion in the USA together with aggressive Marketing activities. In addition, the Group continued to invest in software development and established a software development centre in Bangalore, India which now gives the company a lower cost alternative to develop new product innovations.

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. (2005 : £Nil)

I am pleased the Group has demonstrated significant growth in the year in terms of revenue, profits and cash whilst increasing investment to grow revenues in the future. The Directors believe the current strategy will continue to drive growth in the next financial year.

Michael Jackson
Chairman
8th January 2007

Chief Executives Statement

I am very pleased to report that the year ended 30th September 2006 represented the fourth consecutive year of growth in revenues, profits and cash since the new management team was appointed in 2002.

The company remained focussed on the activities and markets it has been addressing since 2002, namely the provision of Web Content Management (WCM) software to business and the public sector. The overall WCM sector according to Oracle is worth \$3.6bn worldwide and growing at 13%, however, Mediasurface is outstripping this growth by a factor of 3. The basis of the company's trading success was the competitiveness of its flagship Enterprise Web Content Management (EWCM) product – Morello. Morello licence revenues increased by 61% which we believe, makes us the fastest growing provider of EWCM software globally. The product has continued to be highly competitive enabling Mediasurface to contest and win business at some of the largest companies and organisations against much larger and more established players. In so doing the company has been able to drive a 38% increase in the average value of new business licence transactions proving the increased value of this type of technology to major companies and organisations. Simply put, the Morello product is best of breed and has given Mediasurface the competitive edge to win market share.

On a geographic basis the company continued to operate in its 3 established markets of UK, Netherlands and the USA with the majority of investment for growth being in the USA which performed well achieving 99% growth for the full year. Looking forward to the FY07 year the company intends to remain focussed on this strategy together with further US based expansion and additional growth planned in the Nordic and Asia Pacific markets.

The successes of the Morello product sales were additionally reflected in the other two traditional revenue streams of the company, namely professional services and the recurring annual maintenance stream. The services business grew at 40% and recorded its best ever results. The demand for Morello driven professional services was and remains high as a number of customers have enjoyed successful implementation projects and more still have successfully upgraded to the company's latest software releases. The company has both recruited additional resources to meet demand and successfully partnered with larger services organisations such as Logica CMG and Pink Rocada for specific customers and vertical markets. The company will continue the dual strategy of internal resources and partnering to best deliver the customer's requirements.

Annual maintenance revenues continued to grow reaching an annual run rate of £2.5m by year end. In addition to the support of our existing customers the company's growth into the India and Australasia marketplaces offers more flexible solutions for 24x7 support in a "follow the sun" model.

The year saw the launch of the company's new product set Pepperio. Having acquired the SilverBullet product via the acquisition of Class Act BV last year the company invested additional R&D in the product first before re-launching under the new name – Pepperio. This product is not marketed in the same fashion as Morello and is aimed at a different audience. The product is targeted at the Small to Medium sized Business (SMB) sector which has little or no internal IT resources available to deploy and run their websites. For these customers it removes any IT issues as the solution is provided to them as a service from Mediasurface who takes care of all the hosting and other IT matters. Additionally, the product is not sold directly by Mediasurface but by a network of value adding design agencies who can ensure that the customer has a well designed, professional and brand supporting website. Finally, the customer gets access to the Pepperio management tool through their browser and can therefore, with little or no training, maintain their own websites and keep all of their content freshly up to date. The customer therefore gets a professionally designed website delivered from a secure hosted environment with the ability to control the content themselves and all for a modest setup and design fee followed by a low monthly rental.

Pepperio represents a new and annuity based revenue stream, access to a new tier of the marketplace and a highly cost effective platform for geographic expansion. Early signs of success are present with a network of agencies being successfully recruited and a number of customer sites already live. The

impact on the company's revenue numbers for the year was very modest but as the channel continues to grow we can look forward to a valuable, high quality addition to the company's revenues and profits.

Since R&D is essential to a growing software company Mediasurface continued its investment in product throughout the financial year bringing to the market two exciting major releases of the Morello product and two of the Pepperio product. This is a trend the company intends to continue however the opening of our Bangalore based R&D centre has given the company a much more cost effective and scalable model than typically available to a company of comparable size. FY07 will see a number of new and exciting product releases for both product lines including, in particular, the Morello product providing support of Microsoft technologies and Pepperio adding important e-commerce and analytics capabilities to its product mix.

During FY07, the company will remain focussed on executing its R&D, marketing, sales growth, geographic growth and customer service goals. I remain confident that the company is well placed to deliver growth from its two well differentiated and strong product offerings.

Lawrence Flynn
Chief Executive Officer
8th January 2007

Consolidated Profit and Loss Account Year ended 30th September 2006

	2006 £	2005 £
TURNOVER		
Existing operations	9,670,713	6,716,393
Acquisition	-	80,040
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Continuing operations	9,670,713	6,796,433
Cost of sales	(355,044)	(210,823)
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Gross profit	9,315,669	6,585,610
Operating expenses	(8,516,644)	(7,440,442)
OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL OPERATING EXPENSES	813,401	(543,951)
Exceptional Operating Expenses :		
- Provision for UITF17 Share Option Cost	(14,376)	(519,522)
- Release of Sundry Creditor	-	208,641
OPERATING PROFIT/(LOSS)		
- Existing Operations	799,025	(847,575)
- Acquisition	-	(7,257)
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	799,025	(854,832)
Interest receivable	7,322	43,246
Interest payable and similar charges	(78)	(23)
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PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	806,269	(811,609)
Tax charge on profit/(loss) on ordinary activities	(54,314)	-
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PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR	751,955	(811,609)
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Profit/(Loss) per share – basic	1.0p	(1.1)p
Profit/(Loss) per share - diluted	0.9p	(1.0)p

Consolidated Balance Sheet 30th September 2006

	2006 £	2005 £
FIXED ASSETS		
Intangible Assets	161,419	285,804
Tangible assets	231,639	170,890
	<u>393,058</u>	<u>456,694</u>
CURRENT ASSETS		
Debtors	3,499,892	2,463,304
Cash at bank and in hand	1,080,487	302,806
	<u>4,580,379</u>	<u>2,766,110</u>
CREDITORS: amounts falling due within one year	(2,968,698)	(1,860,401)
NET CURRENT ASSETS	<u>1,611,681</u>	<u>905,709</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	2,004,739	1,362,403
CREDITORS: amounts falling due after more than one year	(3,994)	(77,552)
NET ASSETS	<u>2,000,745</u>	<u>1,284,851</u>
CAPITAL AND RESERVES		
Called up equity share capital	772,448	772,448
Share premium account	9,638,377	9,638,377
Shares to be issued	505,326	490,950
Capital redemption reserve	13,083,244	13,083,244
Merger reserve	27,297,412	27,297,412
Profit and loss account	(49,296,062)	(49,997,580)
EQUITY SHAREHOLDERS' FUNDS	<u>2,000,745</u>	<u>1,284,851</u>

Consolidated Cashflow Statement Year ended 30th September 2006

	2006 £	2005 £
Net cash inflow/(outflow) from operating activities	945,112	(1,015,037)
Returns on investments and servicing of finance	7,244	43,223
Taxation	49,933	-
Capital expenditure	(168,976)	(76,543)
Acquisitions	-	(90,780)
Cash inflow/(outflow) before financing	<u>833,313</u>	<u>(1,139,137)</u>
Financing	(5,195)	(2,280)
Increase/(Decrease) in cash in the year	<u>828,118</u>	<u>(1,141,417)</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 2006 or 30 September 2005 but is derived from these accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies in England and Wales and those for 2006 will be delivered following the Company's Annual General Meeting.

The auditors have reported on the 2005 and 2006 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 30th September 2006.

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:

	2006	2005
	£	£
Profit/(Loss) for the year	751,955	(811,609)
Basic - weighted average number of shares	77,244,842	76,822,353
Basic – profit/(loss) per Share	1.0p	(1.1)p
Fully diluted - weighted average number of shares	84,714,632	84,047,504
Fully diluted – profit/(loss) per Share	0.9p	(1.0)p

4. The Annual General Meeting is scheduled to be held at 10am Thursday 22nd February 2007 at the Company's Head Office in Newbury.

5. Copies of the published accounts of the Company will be sent to all shareholders within the next 3-4 weeks.

Latest News

Google and Mediasurface to Bring Improved Search Capability to the Enterprise

Mediasurface and Google have signed a distribution agreement in which Mediasurface will bundle the Google Search Appliance with Morello, its award winning web content management system, enabling the two organisations to provide best of breed web content management and corporate-strength search facilities in one offering. The two organisations already had a number of joint customers and this formal agreement is a natural progression of that relationship.

The Google Search Appliance delivers similar results for enterprise information that Google.com achieves for information on the internet and this new relationship with Google will help Mediasurface deliver even more value to its users.

Mediasurface Releases Morello 5.5 and Delivers Support of Microsoft .NET Developers

Mediasurface also announces today the latest release of Morello, v5.5 which includes Microsoft ASP.NET delivery opening up the extensive Microsoft market to Mediasurface and bringing the benefits of Morello to Microsoft developers.

The new release also includes support of the open source Linux operating system, again extending the market for Morello. It also includes many new features such as the innovative Document Conversion facility that allows users to drag and drop Word documents into the Morello repository then automatically convert them to web pages whilst ensuring that metadata and other attributes are seamlessly handled by Morello.

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