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eServGlobal Limited FY2010 First Half Results

eServGlobal Limited (ASX: ESV & LSE: ESG), a provider of end-to-end solutions enabling smart communication and mobile money services for service providers on any generation network, today announces its results for the six months ending 31 December 2009.

Financial Highlights:

Solid performance, exceeding guidance:

- First half revenues AUD\$43.8M (H1 2009: AUD\$83M). This compares favourably with the previous market guidance (17 November 2009) of revenue being greater than AUD\$40M.
- EBITDA loss of AUD\$5.7M before non-recurring restructuring charges of AUD\$2M (H1 2009: AUD\$7.1M profit), ahead of guidance.
- During the first half of 2009 the company received capacity extensions from two of its largest customers to the value of AUD\$15.5M. For the corresponding period in 2010 only AUD\$1.9M was received from these customers.
- The EBITDA figure for H1 2010 was recorded after capitalisation of development expenditure incurred during the period, which is in accordance with the company's accounting policies, of AUD\$1.3M (H1 2009: AUD\$2.5M)
- Due to the appreciation of the Australian dollar, we have reported a foreign exchange loss of AUD\$1.3M during the first half of the year (H09: \$0.9M profit)
- The loss per share for the first half was 6.1 cents (H1 2009: EPS 0.4 cents)
- Net cash reserves at 31 December 2009 were AUD\$3.4M (AUD\$14.1M at 30 June 2009) mostly due to the payout of AUD\$7.2M in termination payments. It is anticipated that the cash balance will improve in the second half.

Operational Highlights:

- Five new customers signed, confirming our position as leader in the fastest growing pre-paid mobile markets in the world, Middle East and Asia. Revenue from customers remains spread across multiple years, creating a stable underlying revenue base.
- Productivity improvements – headcount has been reduced by 178, resulting in the cost structure of the business decreasing by 30% (AUD\$42M pa).
- HomeSend – first customer agreement signed in respect of HomeSend, eServGlobal's mobile remittance platform developed in partnership with Belgacom International Carrier Services (BICS).
- The successful launch with Orange of FlexiContent during the African Cup of Nations.
- Record number of customer transactions during the critical new-year period.

Outlook

We believe that the second half will demonstrate improved revenue and profit performance that will continue on into FY2011, driven by recovering subscriber growth and communications expenditure in developing countries and demand for our new mobile money product offerings.

**Consolidated statement of comprehensive income
for the half-year ended 31 December 2009**

	Consolidated	
	Half-Year Ended 31 December 2009 \$'000	Half-Year Ended 31 December 2008 \$'000
Revenue	43,763	83,093
Cost of sales	(23,556)	(39,369)
Gross profit	20,207	43,724
	46.2%	52.6%
Other income	59	214
Research and development expenses	(4,840)	(11,060)
Sales and marketing expenses	(6,432)	(11,624)
Administration expenses	(13,424)	(15,043)
Total Operating Expenses	(24,696)	(37,737)
Foreign Exchange Profits (Losses)	(1,297)	854
Non – Recurring restructuring costs	(2,019)	0
<i>(Loss) / earnings before interest, tax, depreciation and amortisation</i>	(7,746)	7,065
Amortisation expense	(3,505)	(3,837)
Depreciation expense	(1,486)	(1,708)
<i>Earnings before interest and tax</i>	(12,737)	1,520
Finance costs	(83)	(105)
(Loss)/Profit before tax	(12,820)	1,415
Income tax benefit / (expense)	980	(689)
(Loss) / profit for the period	(11,840)	726
Other comprehensive income		
Exchange differences arising on the translation of foreign operations	(1,525)	12,621
Total comprehensive income for the period	(13,365)	13,347
Attributable to:		
Equity holders of the parent	(13,451)	13,223
Minority interest	86	124
	(13,365)	13,347
Earnings per share:		
Basic (cents per share)	(6.1)	0.4
Diluted (cents per share)	(6.1)	0.4

**Consolidated statement of financial position
as at 31 December 2009**

	Consolidated	
	31 December 2009 \$'000	30 June 2009 \$'000
Current Assets		
Cash and cash equivalents	3,420	14,135
Trade and other receivables	40,914	63,493
Inventories	337	623
Current tax assets	6,681	7,368
Total Current Assets	51,352	85,619
Non-Current Assets		
Trade and other receivables	0	0
Property, plant and equipment	4,937	4,891
Deferred tax assets	4,819	2,929
Goodwill	34,649	35,483
Other intangible assets	16,710	20,383
Total Non-Current Assets	61,115	63,686
Total Assets	112,467	149,305
Current Liabilities		
Trade and other payables	17,191	31,963
Current tax payables	20	930
Provisions	3,667	5,562
Other	4,265	7,219
Total Current Liabilities	25,143	45,674
Non-Current Liabilities		
Deferred tax liabilities	5,263	8,040
Provisions	512	537
Total Non-Current Liabilities	5,775	8,577
Total Liabilities	30,918	54,251
Net Assets	81,549	95,054
Equity		
Issued capital	123,946	123,946
Reserves	2,746	4,411
Accumulated Losses	(45,264)	(33,338)
Parent entity interest	81,428	95,019
Minority interest	121	35
Total Equity	81,549	95,054

**Consolidated cash flow statement
for the half-year ended 31 December 2009**

	Consolidated	
	Half-Year Ended 31 December 2009 \$'000	Half-Year Ended 31 December 2008 \$'000
Cash Flows from Operating Activities		
Receipts from customers	64,518	77,455
Payments to suppliers and employees	(71,320)	(83,652)
Interest and other costs of finance paid	(83)	(105)
Income tax refunded / (paid)	(206)	2,276
	(7,091)	(4,026)
Net cash used in operating activities		
Cash Flows From Investing Activities		
Interest received	59	214
Payment for property, plant and equipment	(2,255)	(1,561)
Software development costs	(1,289)	0
	(3,485)	(1,347)
Net cash used in investing activities		
Cash Flows From Financing Activities		
Proceeds from issues of equity securities	0	294
Dividends paid	0	(5,131)
	0	(4,837)
Net cash used in financing activities		
Net Decrease In Cash and Cash Equivalents	(10,576)	(10,210)
Cash At The Beginning Of The Period	14,135	18,288
Effects of exchange rate changes on the balance of cash held in foreign currencies	(139)	2,085
	3,420	10,163
Cash and Cash Equivalents At The End Of The Period	3,420	10,163

Operational Review

Solutions and Services

eServGlobal provides solutions for Smarter Transaction Management, driving more value from each telecom transaction.

We enable new business models for tomorrow, while maximizing our customers' investments today. Mobile, fixed, internet and multi-play communications providers use our world-leading, real-time capabilities to significantly increase revenues, customer loyalty and expenditure efficiency.

eServGlobal has the largest convergent charging and payments installed base in the world. Our customers drive our solutions, which we then rapidly develop and deploy. This customer-led approach to our business enables our customers to quickly create and launch new services and personalised, real-time promotions to lead and innovate in their markets.

Today more than 80 customers, in over 50 countries, perform over 2.4 billion transactions per day using our solutions. We are the largest independent provider of intelligent network software to operators and our software transacts over USD 4 billion worth of telco traffic and payments per month.

We are the clear leader in the fastest growing pre-paid mobile markets in the world - Middle East and Asia.

With 16 offices globally, we provide flexible end-to-end solutions with ongoing product development and worldwide implementation and support services.

eServGlobal specialises in agile convergent charging and rating, mobile payment and retention solutions, on any generation network as well as customer-focused value added services supplementing our solutions.

While we currently provide these services on both a modular and integrated basis, we are now moving where possible to provide both the Mobile Money and Promotions/Retention solutions on a "software as a service" (SAS) basis.

Our growth in new customer wins is accelerating. Since the beginning of the year, we have entered into agreements with five new customers all of whom have selected our charging platforms and two of whom have selected our full suite of products. Three of these customers (Cubic Telecom, Aspider Solutions, and a Mobile Virtual Network Enabler (who signed agreements at Mobile World Congress last week) operate in Europe and two (Wateen Telecom, Nepal Satellite Telecom) operate in Asia.

Efficiency Improvements

We have made the following cost reductions:-

- Reduced the number of employee and permanent contractors by 178 (24%) since the beginning of FY 2009.
- Reduced the average annual employee cost by 6% through the move to lower cost economies.
- In H1 2010, reduced outsourcing costs from AUD\$1.7M to AUD\$1.1M (35%) and travel and entertainment from AUD\$6.7M to AUD\$2.7M (59%).

We have made the following productivity improvements:-

- Reduced the number of management layers by two.
- Increased the ratio of employees to managers from 6.9 to 9.8.
- Reduced the percentage of managers as a percentage of staff from 47% to 28%.

New Products and Customer Wins

We have either recently signed agreements with or now have reference customers for the following new products:-

- FlexiContent – a premium SMS services offering
- PromoMax – a network agnostic promotions workbench for real time operators
- HomeSend – an international remittance platform

After many years of development, the HomeSend international remittance platform has now been put into production with three international corridors being rolled out between the Philippines and the US, UK and Belgium. While it is still early days in the evolution of mobile money, eServGlobal is the only software provider, in combination with BICS that can provide mobile-to-mobile centric remittance across international boundaries while addressing differing currencies, taxes and commission structures.

Our partner in the HomeSend platform, BICS, is the world leader in data transit services and is one of the big five wholesale voice carriers globally. BICS is a highly respected company that is connected to 500+ mobile operators around the world. The HomeSend platform resides within their network and is offered as a software as a service. They are able to connect operators to the service quickly and efficiently thereby providing both credibility to the HomeSend brand and momentum to the Mobile Money market.

Telecommunications Market

According to a study by research firm Ovum in December 2008, the growth in global subscribers is forecast to grow at a compound annual rate of 7.4% over five years. For the emerging markets and Asia, where eServGlobal is strongly positioned, the compound annual growth rates are forecast to be 10% and 9% respectively. They also predict that Global teledensity will increase to 80% by the end of 2013.

eServGlobal's Chief Executive Officer, Richard Mathews said "From the evidence of increased activity that emerged at the World Mobile congress in Barcelona last week, it feels to us that the global telecommunications market is starting to recover from the economic downturn of 2008/2009. While the global financial crisis hit operators and suppliers to the telecom industry hard, the growth in subscribers has continued unabated. eServGlobal is well placed to benefit from this recovery as we are able to offer solutions to operators that maximize their revenues now while continuing to develop and deliver new value added services and products".

"We believe that the first quarter of this year was the bottom of the trough for us. With our recent customer wins, significant right-sizing of the business and the introduction/go-live of three new products into the market, we are well positioned to return to consistent profitable growth".

"We are excited about the world of Mobile Money as our current portfolio of products in combination with the HomeSend platform gives us an early lead in mobile centric international remittance"

Financial Review

eServGlobal achieved sales revenue for the period of AUD\$43.8M (2008 AUD\$83.1M) – a decrease of 47%. The gross profit realised was AUD\$20.2M (gross profit margin: 46%) (2008 AUD\$43.7M (gross profit margin: 52.6%)). EBITDA for the period was a loss of AUD\$7.8M (2008 EBITDA profit AUD\$7.1M).

The net result for the half year ended 31 December 2009 was a loss after tax and minority interest for the period of AUD\$11.9M (2008: AUD\$0.6M profit after tax). Loss per share was 6.1 cents (2008: EPS 0.4 cents).

In accordance with the Group's accounting policies, development expenditure incurred during the period of AUD\$1.3M was capitalised in the Balance Sheet. The expenditure related to internally generated software comprising the HomeSend platform for which no revenue was received in the first half of the FY10 year.

During the period, the operating cash flow for the period was a net outflow of AUD\$7.1M, primarily resulting from the settlement of compensation payments of AUD\$7.2M to departing employees. Cash at 31 December 2009 was AUD\$3.4M. It is anticipated that the cash balance will improve in the second half.

About eServGlobal

eServGlobal is listed on the Australian Securities Exchange (ASX: ESV) and the London Stock Exchange AIM market (LSE: ESG).

More information is available in our investor presentation which is accessible via our website: www.eservglobal.com

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