Interim Report 2007

Newport networks

Chairman's Report for Newport Networks Group PLC ("Newport" or the "Company")

The Company has announced today that it proposes to raise £6 million before expenses by way of a Placing of New Ordinary shares at a price of 3p per share. The net proceeds of the Placing will strengthen the Company's balance sheet, enabling the Group to complete its current business plan and provide general working capital for the Group. The Placing is conditional upon the Company obtaining approval from shareholders at an Extraordinary General Meeting to be held on 22 August 2007.

Market and Strategy

During the summer of 2006, the Company revised its market and product development strategy in response to the delays in the implementation of Next Generation Networks (NGNs) and corresponding delays in the market for its carrier scale SBCs.

The product portfolio has now been extended to address the current market demand for smaller products and the emerging demand for products that are compatible with distributed network architectures. Such IMS (IP Multimedia Subsystem) related products allow networks to be designed with centralised signalling processing (using either Border Controllers or direct softswitch control) and remote media processing using Border Gateways. The Newport SBC, Border Controller and Border Gateway product functions can now be realised using the larger 1460 platform or the smaller 310 platform to suit both current and future customer requirements.

The Company also continues to develop further functions and features across the product portfolio in response to direct customer requirements. For example, the Company's current development of high capacity voice transcoding is particularly important when interconnecting fixed line and mobile networks, where a transcoding capability is required to ensure the correct inter-working of a wide range of customer terminal devices.

From a sales strategy perspective, the Company is primarily focussing on the AsiaPacific, European and CALA (Caribbean and Latin American) regions. With the revised and extended product portfolio, the Company's sales teams have been successful in developing further NEV channel partnerships that are now helping to grow the pipeline of business prospects. The NEV channel partners represent a very efficient route to market for the Newport products given their large sales and support resources and existing customer base.

Financial Performance

The loss after tax for the six months to 30 June 2007 was £4.0m compared to a loss of £6.9m in the six months to 30 June 2006. Revenue for the six months to 30 June 2007 was £76,000 compared to £758,000 in the six months to 30 June 2006. An R&D Tax Credit claim for the year to 31 December 2006 has been agreed with HM Revenue & Customs and a repayment of £1,377,000 was received in June 2007. At 30 June 2007, cash resources were £691,000 and as at 26 July 2007 these amounted to approximately £350,000.

Current trading and prospects

Key ingredients relating to the Company's extended product portfolio and channels to market are now in place to facilitate the growth of the business.

While the revenues during the period since the cost reduction programme last year have been small, the Group's sales teams have been working steadily to develop further key NEV channel partnerships. The Company is addressing global opportunities and has built a sales pipeline that the Directors are confident will lead to increasing revenues commencing in the second half of this year.

Newport recently announced a strategic partnership agreement with UTStarcom and its associated live IP Interconnect trial with an operator in China. The Company also announced the deployment of the 1460 SBC by Chungwa Telecom, in Taiwan, that includes the provision of Lawful Intercept (LI) facilities for their IP based services. LI is becoming a mandatory requirement in many countries around the world.

Including the UTStarcom agreement, the Company now has four signed agreements with major NEVs. Newport is in advanced negotiations regarding an agreement with one of the world's largest NEVs that is also a market leader in IMS solutions. This relates to Newport's development of Border Gateway products for integration by the NEV into its overall IMS product portfolio. Given the profile of the NEV in the IMS market, the Directors believe that the Border Gateway business associated with this opportunity is likely to provide Newport with a substantial base level of revenues in 2008 and enhance revenues significantly during 2009 and beyond as IMS based NGNs are implemented. The Directors expect this agreement to be signed by the end of September 2007, however, there can be no certainty that negotiations will reach a satisfactory outcome in this time frame or at all.

The Directors believe that the Placing proceeds, in combination with the lower cost base, current inventories and extended product portfolio will allow the Company to capitalise on the above opportunities. Also, the strengthening of the balance sheet will enhance Newport's credibility with current and potential channel partners and customers.

Outlook.

In summary, the Directors believe that, subject to the Placing, Newport is well placed to achieve significant sales of its carrier-scale products as tier-1 operators move to deployment of NGN infrastructures. The 1460 has a high performance signalling and media processing capability, which is required for efficient IP multimedia networking. This, added to the recent introduction of the 310, a small SBC (using the same technology as the 1460), allows the distributed architecture properties of the product line to be much more effective in NGN infrastructures. With many major NEVs offering the products, the Company is now better positioned to address the business opportunities worldwide.

The Directors believe that Newport is able to achieve significant revenues and ongoing business growth from an increased product range with more channels to market and with good market timing for NGN technology deployment.

Sir Terence Matthews
Chairman.

GROUP PROFIT AND LOSS ACCOUNT

	6 months to 30 June 2007 Unaudited £000	6 months to 30 June 2006 Unaudited £000	Year to 31 December 2006 Audited £000
Turnover	76	758	1,061
Cost of sales	(28)	(297)	(439)
Gross Profit	49	461	622
Administrative expenses	(4,544)	(8,131)	(16,062)
Operating loss	**(4,495)**	**(7,670)**	**(15,440)**
Interest receivable	47	232	399
Loss on ordinary activities before taxation	**(4,448)**	**(7,438)**	**(15.041)**
Tax on loss on ordinary activities	487	553	1,344
Loss for the period	**(3,961)**	**(6,885)**	**(13,697)**
Loss per share			
- Basic and diluted	(2.38p)	(4.52p)	(8.6p)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 June 2007 Unaudited £000	6 months to 30 June 2006 Unaudited £000	Year to 31 December 2006 Audited £000
Loss for the period	(3,961)	(6,885)	(13,697)
Translation difference in respect of net investment in overseas subsidiary undertakings	22	(23)	(56)
Prior year adjustment in respect of adoption of FRS 20 ‘Share-based payment’	-	-	(554)
Total recognized losses in the period	**(3,939)**	**(6,908)**	**(14,307)**

GROUP BALANCE SHEET

	30 June 2007	30 June 2006	31 December 2006
	Unaudited	**Unaudited**	**Audited**
	£000	**£000**	**£000**
Fixed assets			
Tangible assets	2,115	2,595	2,516
Current assets			
Stock	2,284	3,248	1,880
Debtors	1,715	2,558	2,986
Cash at bank and in hand	691	10,501	3,697
	4,690	16,307	8,563
Creditors: amounts falling due within one year	(1,050)	(2,430)	(1,415)
Net current assets	3,640	13,877	7,148
Net assets	5,755	16,472	9,664
Capital and reserves			
Called up share capital	8,329	8,329	8,329
Share premium account	36,390	36,390	36,390
Merger reserve	8,088	8,088	8,088
Other reserve	899	278	869
Profit and loss account	(47,951)	(36,613)	(44,012)
Total shareholders' funds - equity interests	5,755	16,472	9,664

GROUP CASH FLOW STATEMENT

	6 months to 30 June 2007 Unaudited £000	6 months to 30 June 2006 Unaudited £000	Year to 31 December 2006 Audited £000
Net cash outflow from operating activities	(4,310)	(7,164)	(13,718)
Returns on investments and servicing of finance			
Interest received	47	232	399
Taxation			
UK corporation tax repaid	1,377	1,117	1,119
Capital Expenditure			
Purchase of tangible fixed assets	(120)	(955)	(1,403)
Proceeds of sale of fixed assets	-	-	30
Net cash outflow before financing	(3,006)	(6,770)	(13,573)
Financing			
Issue of ordinary share capital	-	14,672	14,671
(Decrease) / Increase in cash	(3,006)	7,902	1,098

Reconciliation of operating loss to net cash outflow from operating activities

Operating loss	(4,495)	(7,670)	(15,440)
Depreciation of tangible fixed assets	521	553	1,050
Decrease / (Increase) in debtors	381	(202)	159
(Decrease) / Increase in creditors	(365)	137	(877)
(Increase) / Decrease in stock	(404)	(38)	1,330
Share based payment	30	79	116
Other non cash items	22	(23)	(56)
Net cash outflow from operating activities	(4,310)	(7,164)	(13,718)

NOTES TO THE INTERIM STATEMENT

1. Basis of preparation

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2006 statutory financial statements of Newport Networks Group PLC. The directors consider that following the proposed share placing announced on 30 July 2007 the group will have adequate resources to continue in existence for the foreseeable future and therefore it is appropriate to prepare the interim report on a going concern basis.

The interim report was approved by the Board of directors on 27 July 2007.

2. Loss per ordinary share

The basic loss per share (LPS) of (2.38p) is based on the loss for the period of £3,961,000 and the weighted average number of ordinary shares in issue of 166,582,833.

The 30 June 2006 comparative loss per share (LPS) of (4.52p) is based on the loss for the period of £6,885,000 and the weighted average number of ordinary shares in issue of 152,310,273.

The 31 December 2006 comparative loss per share (LPS) of (8.6p) is based on the loss for the year of £13,697,000 and the weighted average number of ordinary shares in issue of 159,505,207.

Diluted LPS has not been disclosed, due to employee share options being anti-dilutive. In these circumstances diluted LPS is the same as the basic LPS.

3. Debtors

	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
Trade debtors	998	1,406	1,290
VAT recoverable	18	75	62
Other debtors	37	203	16
R&D tax credit receivable	450	551	1,340
Prepayments and accrued income	212	323	278
	1,715	2,558	2,986

4. Creditors: amounts falling due within one year

	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
Trade creditors	305	565	497
Other taxes and social security costs	167	267	144
Accruals	578	1,459	764
Deferred revenue	-	139	10
	1,050	2,430	1,415

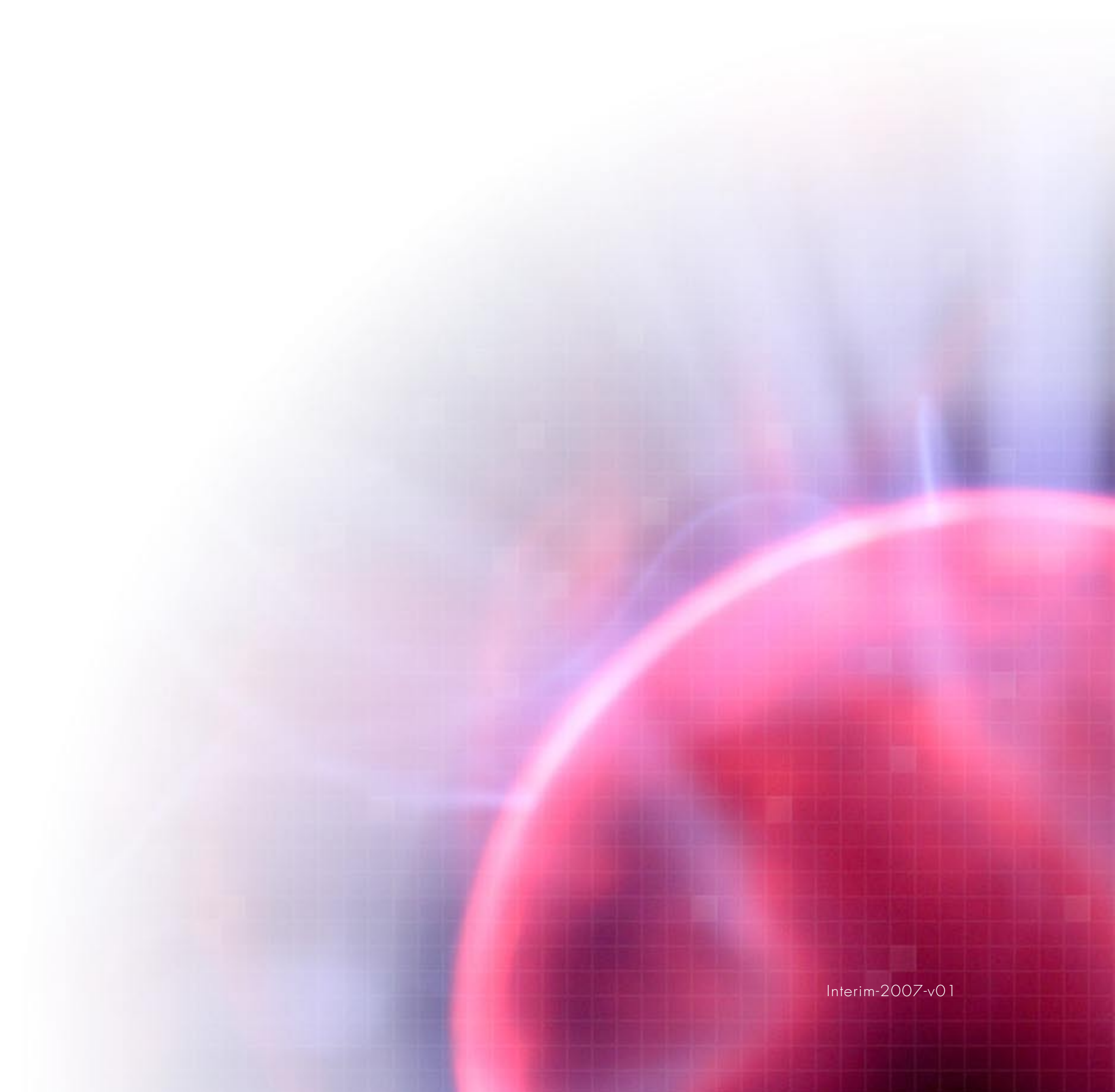
5. Group reconciliation of movements in shareholders' funds

	Share capital £000	Share premium £000	Other reserve £000	Profit & loss account £000
At 1 January 2007	8,329	36,390	869	(44,012)
Loss for the period	-	-	-	(3,961)
Exchange differences on foreign net investments	-	-	-	22
Share based payment charge	-	-	30	-
At 30 June 2007	8,329	36,390	899	(47,951)

There has been no movement in the Merger Reserve during the six month period ended 30 June 2006.

6. Publication of non-statutory accounts

The financial information contained in this interim statement does not amount to statutory financial statements within the meaning of section 240 Companies Act 1985 and has not been reported on by the auditors or delivered to the Registrar of Companies. The figures for the year to 31 December 2006 have been extracted from the full statutory financial statements for that year which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.



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