



Software
Radio Technology

Software Radio Technology plc

Interim Report 2006

Chairman's statement

The first half of the financial year has seen SRT progress from a primary focus on technology and product development to a greater emphasis on providing support to customers to enable them to enter production. Meanwhile our target markets have continued to grow strongly. As indicated in our preliminary announcement on 15 June 2006, we have established our SRT Marine business as a separate trading division.

Professional Mobile Radio – TETRA

Most of our TETRA customers are now in various stages of pre-production and field-testing ahead of the commencement of full production. This work has resulted in various type and interoperability approvals being obtained by SRT and its customers for their products.

During this period of intensive customer support and testing, certain software-related issues have arisen. We anticipate that these issues, whilst resolvable, will result in up to six months' delay to our customers being able to enter volume production of handsets and therefore a corresponding delay in the generation of royalties for SRT.

Chairman's statement continued

The strength of the demand for our customers' products going forward is clearer than ever with active trials taking place with various authorities in China (including the Air Force), South Korea and elsewhere in Asia. The decision to adopt TETRA has been made in these countries and the Board believes that SRT's customers are well placed to become major handset suppliers in those markets given the preference for local supply of homeland security-related products. We therefore expect royalties to commence during 2007 as customers enter volume production.

AIS-Marine

We believe our Marine business offers a substantial opportunity. Significant progress has been made within

the business which has now started generating revenues.

During the last six months, SRT has successfully completed the development of, obtained type approval for and launched a low cost AIS transponder for leisure and small commercial vessels. A modified version for use on buoys is planned to be launched in the first half of 2007. In parallel we have increased sales and marketing resources and are now building a substantial customer base which already numbers 15 companies, including some of the largest marine electronic companies in the world. SRT is now working with authorities around the world, including the Royal National Lifeboat Institution, the UK Maritime and Coastguard Agency and the US Coastguard, which are

all actively considering the extension of existing AIS mandates to encompass smaller vessels.

With the launch of products by our customers and their preferential access to their local markets, SRT has commenced a number of discussions with possible strategic partners to further exploit available sales channels.

Results

Revenues for the six months were £843,000 (2005: £1.22 million). The fall in revenue was primarily due to a lower level of income recognition of licence and development fees from TETRA contracts. AIS Class B marine revenues commenced during the period and totalled £148,000 and are

expected to accelerate during the second half.

Financing

In June 2006 SRT raised £4.05 million (net) to support additional investment in both the TETRA and marine businesses. As at 30 September, the Company had net cash of £2.68 million. Also, fixed licence and development fee payments of £3.0 million are due from customers over the next 12 months in addition to the anticipated royalties.

Whilst the last six months has seen an increase in costs due to the additional support provided to customers, this has not resulted in a long term increase in the Company's overhead which remains in line with our business model.

Management

Shamus Kelly, Managing Director, is leaving the Company for family reasons with effect from today. Shamus will be succeeded by Simon Tucker, Commercial Director who has been appointed interim Managing Director. The Board intends to recruit a permanent Managing Director to lead the Company through its next stage of development.

Outlook

The software issues referred to above will result in royalty revenues which were forecast for the current financial year being pushed back into 2007/8. As a result, SRT will not achieve profitability during the current financial year.

The Board remains confident of the medium and long term

prospects for the Group and that the additional investment in development and customer support this year will be reflected in substantial revenue growth during 2007/8.

In summary SRT continues to make progress in both its TETRA and Marine businesses, investing heavily in the technologies and customers in order to secure revenues for the future. The Company has started generating revenues from products being sold around the world which contain its reference designs and we expect this to accelerate.

Consolidated Profit and Loss Account

for the six months ended 30 September 2006

| | Six months ended 30 Sept 2006 Unaudited £ | Six months ended 30 Sept 2006 Exceptional Unaudited £ | Six months ended 30 Sept 2006 Total Unaudited £ | Six months ended 30 Sept 2005 Unaudited £ |
|--|--|---|---|--|
| Turnover | 842,579 | – | 842,579 | 1,220,267 |
| Cost of sales | (601,855) | – | (601,855) | (741,515) |
| Gross profit | 240,724 | – | 240,724 | 478,752 |
| Administrative expenses | (1,434,112) | (201,916) | (1,636,028) | (1,029,185) |
| Loss on ordinary activities before interest | (1,193,388) | (201,916) | (1,395,304) | (550,433) |
| Other interest receivable and similar income | 46,940 | – | 46,940 | 4,640 |
| Interest payable and similar charges | – | – | – | (11,484) |
| Loss on ordinary activities before taxation | (1,146,448) | (201,916) | (1,348,364) | (557,277) |
| Tax on loss on ordinary activities | – | – | – | 160,524 |
| Loss on ordinary activities after taxation | (1,146,448) | (201,916) | (1,348,364) | (396,753) |
| Loss per share (basic and diluted) | | | (1.83)p | (0.79)p |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no other recognised gains or losses other than those passing through the profit and loss account.

Consolidated Balance Sheet

as at 30 September 2006

| | Six months ended 30 Sept 2006 Unaudited £ | Six months ended 30 Sept 2005 Unaudited £ |
|--|--|--|
| Fixed Assets | | |
| Intangible assets | 3,941,790 | 2,157,310 |
| Tangible assets | 510,854 | 335,477 |
| | <hr/> | <hr/> |
| | 4,452,644 | 2,492,787 |
| Current Assets | | |
| Stocks | 240,807 | 23,496 |
| Debtors | 2,284,865 | 1,267,614 |
| Cash at bank and in hand | 2,682,088 | 40,776 |
| | <hr/> | <hr/> |
| | 5,207,760 | 1,331,886 |
| Creditors: amounts falling due within one year, including convertible debt | <hr/> | <hr/> |
| | (1,032,598) | (1,400,696) |
| Net current assets/(liabilities) | <hr/> | <hr/> |
| | 4,175,162 | (68,810) |
| Total assets less current liabilities | <hr/> | <hr/> |
| | 8,627,806 | 2,423,977 |
| Creditors: amounts falling due after more than one year, including convertible debt | <hr/> | <hr/> |
| | – | (447,558) |
| | <hr/> | <hr/> |
| | 8,627,806 | 1,976,419 |
| Capital and reserves | | |
| Called up share capital | 78,088 | 12,520 |
| Share premium account | 7,702,858 | – |
| Other reserves | 5,724,512 | 5,458,343 |
| Profit and loss account | (4,877,652) | (3,494,444) |
| | <hr/> | <hr/> |
| | 8,627,806 | 1,976,419 |
| | <hr/> | <hr/> |

Consolidated Cash Flow Statement

for six months ended 30 September 2006

| | 30 Sept 2006 Unaudited £ | 30 Sept 2005 Unaudited £ |
|---|-----------------------------------|-----------------------------------|
| Operating activities | | |
| Cash flow from operations activities | (1,217,969) | (824,997) |
| Returns on investment and servicing of finance | | |
| Interest paid | – | (3,828) |
| Interest received | 46,940 | 4,640 |
| | (1,171,029) | (824,185) |
| Taxation | – | 160,524 |
| Capital expenditure | | |
| Payments to acquire intangible fixed assets | (1,154,059) | (678,707) |
| Payments to acquire tangible fixed assets | (278,281) | (237,302) |
| | (2,603,369) | (1,579,670) |
| Financing | | |
| Issue of ordinary shares | 4,052,026 | 50,000 |
| | 1,448,657 | (1,529,670) |
| Increase/(decrease) in cash equivalents | 1,233,431 | 1,067,650 |
| Cash equivalents at start of period | 2,682,088 | (462,020) |
| Cash equivalents at end of period | | |
| Cash equivalents comprise | | |
| Cash and cash equivalents | 2,682,088 | 40,776 |
| Bank overdrafts | – | (502,796) |
| | 2,682,088 | (462,020) |

Consolidated Cash Flow Statement continued

for six months ended 30 September 2006

Reconciliation of operating loss to net cashflow from operating activities

| | Six months ended 30 Sept 2006 Unaudited | Six months ended 30 Sept 2005 Unaudited |
|--|---|---|
| Operating loss | (1,395,304) | (542,618) |
| Exceptional item | 201,916 | - |
| Depreciation | 91,626 | 64,328 |
| Amortisation | 73,143 | 73,141 |
| Decrease in stocks | 49,284 | 111,241 |
| (Increase) in debtors | (380,885) | (577,749) |
| Increase in creditors | 142,251 | 46,660 |
| Net cash inflow from operating activities | (1,217,969) | (824,997) |

Notes

1. The unaudited interim financial statements have been prepared on a basis consistent with the statutory financial statements of Software Radio Technology plc for the year ended 31 March 2006, except as detailed below. Accounting standards introduced since that date have no impact on the accounting treatment adopted.

On 19 October 2005, the Company acquired the entire issued share capital of Software Radio Technology (UK) Limited by means of a share for share exchange. This Group reconstruction has been accounted for under merger accounting principles. The substance of the transaction was not the acquisition of a business but a Group reconstruction under which a new holding company has been established with all the former shareholders having the same proportionate interest in the new holding company.

The adoption of merger accounting presents Software Radio Technology plc as if it had always been the parent undertaking of the Group.

The interim financial statements, which have been approved by the directors, are unaudited and have not been subject to independent review as defined in the Auditing Practices Board Bulletin 1999/4 and do not constitute full statutory financial statements as defined in section 240 of the Companies Act 1985.

2. Included in the profit and loss account is an exceptional charge of £201,916, calculated in accordance with FRS 20, "share-based payment". The requirement of this standard is to measure the fair value of employee share options and recognise that value as an expense over the life of the option using an appropriate option pricing model. We have selected the Monte Carlo model for those options granted to the Chairman and the binomial model for all other grants.
3. The calculation of basic earnings per ordinary share is based on losses of £1,348,364 (2005 – loss £396,753) and on 73,565,806 (2005 – 49,990,300) ordinary shares, being the weighted average number of shares in issue during the period.
4. The Board is not recommending the payment of a final dividend.
5. Copies of these interim results will be sent to shareholders on or around 13 December 2006 and will be available for a period of one month from the Company's registered office, Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS.



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