

25 March 2010

**Artilium plc**  
**("Artilium" or the "Company")**

**Interim results for the six months ended 31 December 2009**

Artilium plc (LSE/AIM: ARTA), the AIM quoted provider of innovative telecommunication software and solutions, announces its interim results for the six months ended 31 December 2009.

**Financial Highlights**

- Revenue for the six months to 31 December 2009 was £1.2 million (2008 restated: £3.6 million)
- No further revenue released in the current period with respect to the 2008 restatement
- Underlying operating loss (before exceptional items and one-off items) of £1.1 million (2008 restated: £2.6 million), an improvement of 57.7%
- Administrative expenses (before exceptional items and one-off items) reduced to £2.1 million (2008 restated: £4.2 million)
- Cash at the end of the period of £2.3 million (30 June 2009: £2.0 million)

**Commenting on the results, Fred Mulder, Executive Chairman of Artilium said:**

*“Although the financial year ending 30 June 2010 continues to be a year of transition, we believe the business is now on a stable footing with the vast majority of changes now behind us. Some exciting software (ARTA 8) has come from our Research and Development and we have been able to significantly reduce our costs at the same time. Existing customers have shown their loyalty to the Company and are looking to extend the use of the ARTA platform. With the additional funding that we secured in November we are now fully focused on business development. Several new partnerships and the existing partner-channels have created an interesting pipeline which we expect to convert into new customers in the second half of this fiscal year. We are on track to achieve our target to reach cash breakeven in 2011.”*

**For further information please contact:**

Artilium PLC: +32 (0)50230300  
Fred Mulder  
Maarten Bisseling

Arbuthnot Securities: +44 20 7012 2000  
Antonio Bossi  
Ed Groome

## About Artilium

Artilium develops advanced innovative software and solutions for telecommunications. The Company's ARTA Service Delivery Platform ("ARTA") is built on the most trusted application platform in the telecom industry. Its robust and scalable infrastructure and flexible architecture enables the continuous deployment of updated services in response to any future need. The ARTA Platform provides an open infrastructure that enables operators and service providers to create, deliver and manage services and applications efficiently. ARTA opens telecoms networks to third-party applications and connected social media, generating a new value-chain that includes advertisers, content providers, internet service providers, social networks, mobile network operators and software developers.

Founded in 1995, the Company now has more than 40 installations serving millions of users in 11 countries. Artilium is a publicly quoted Company on AIM of the London Stock Exchange (LSE/AIM: ARTA) with offices in Belgium and the United Kingdom. For more information, please visit: [www.artilium.com](http://www.artilium.com)

\* \* \* \* \*

## Chief Executive's Statement

### Overview

During the period under review, the Company has focused on the execution of its new strategy. The running costs of the Company have been reduced; productivity has been increased, and major milestones for existing customer projects have been reached. Stabilization of the installations on different customer sites has been successfully executed proving the success of the Company's shifting focus to delivery and support rather than on pure development. As a direct result relationships with existing customers have improved. From this position of enhanced stability, the Company has built a new business plan and secured an investment of €2.5million by way of an issue of convertible loan notes to finance this plan. We expect the new business plan to lead to cash break even in 2011. Together with the building of the pipeline in close cooperation with existing and new partners, the Company is on track for the realisation of this business plan. Our business currently remains skewed towards the old business model (software licensing and bespoke project delivery, CAPEX) rather than the new business model (revenue share models, OPEX), but the balance in the pipeline is shifting towards the new OPEX-based business model; this will provide the Company with greater predictability of income in the future.

### Market Dynamics

ARTA activates mobile networks for mobile application development and innovation, delivering the convergence of the 'three Cs' of mobile: **Communication** (voice, data), **Customer** (rating, charging), and **Context** (mobile presence), with the 'three Cs' of the Internet: **Content** (new media, advertising), **Commerce** (payments, money transfer), and **Community** (social networking), generating valuable "mashups" (applications that combine data from more than one source).

Our Research and Development Department has successfully delivered the first functional release of ARTA 8 in July 2009. This is essential for our strategy, as this release enables us to bring the experience and knowledge from our established Mobile Virtual Network Operator ("MVNO") and Service Delivery solutions to the world of mobile applications.

Artium believes that:

- (1) The markets for both Service Delivery Platforms and Applications are strong, and ARTA 8 is ideally positioned between the two with a very appealing value proposition.

Infonetics Research (2010) estimates the Service Delivery Platform market to hit \$4.6 billion by 2014, driven by mobile applications stores that can be launched quickly.

- (2) Artium offers Mobile Network Operators (“MNO”) and MVNOs the ability to launch multiple sub-brands and target niche segments efficiently and effectively with record-speed time to market. This is a key and unique selling point for ARTA 8, which will be monetized through the ARTA MVNE (see hereafter).

inCode (2010) foresees the resurgence of the MVNO market, based on a new business model emphasizing delivery of total solutions with mobile as part of the package, allowing operators to penetrate markets that previously were not easy to access directly.

- (3) Location Based Services (“LBS”) provide exciting opportunities in multiple sectors of the economy. ARTA 8 is uniquely positioned to provide these location-based services as an integral part of its service delivery platform.

Gartner (2010) predicts that context will be as influential to mobile consumer services and relationships by 2015 as search engines are to the internet now. Location based, context aware services will have a transformational, disruptive effect on many businesses - particularly in retail, financial services, media and telecom.

- (4) Emerging markets offer robust growth possibilities, especially for non-smart phone applications.

As many mobile application providers are focusing on handset applications for smart phones (iPhone, BlackBerry, Android, Windows Mobile etc), the market for non-smart phone applications has become neglected. Analysys Mason (2010) estimates that despite the growth of smart phone sales, basic and enhanced devices will continue to constitute more than 75 per cent. of the handset market. ARTA addresses this market by enabling the mobile applications to become available for users of less expensive phones (ARTA is handset independent) and therefore opening significant business opportunities in the area of mobile commerce.

Strong partners like Tata Consultancy Services (“TCS”) and Microsoft will help us to be successful in this area. The Company has high expectations for this business, especially in emerging markets. This view is confirmed by research from Morgan Stanley (2009) who sees significant long-term mobile internet potential in emerging markets and vibrant mobile value added services (such as very useful and robust applications built on SMS and mobile banking).

## **Business update**

In July 2009 the new management found a Company with great products, but an empty pipeline. Also there were some challenges in the delivery of projects as the downsizing of the Company in April had hit its capability to deliver. By focusing on the delivery of existing commitments, the Company was able to successfully roll out the geo redundant platform to KPN and create the basis for further projects to be executed in this environment.

The compelling case for the implementation of the ARTA platform is its ability to deliver a product and organize the value chain. We not only enable our customers to deliver a service, ARTA also enables the different partners in the value chain to share the value through its integrated real time wholesale and retail rating capabilities.

### *ARTA Mobile Virtual Network Enabler ("MVNE")*

At the same time we have seen that in order to be able to deliver our services and create these business opportunities, we need to be able to implement our services without being overly dependent on mobile operators. Therefore Artium plans to roll out its own ARTA platform in The Netherlands during 2010. We are in discussion with all 3 operators to connect this platform to their network. This MVNE and presence platform will be supporting all features of ARTA 8. We already have commitments from several parties that are interested in using these services.

The ARTA MVNE platform is not focused on creating yet another MVNO that will compete on price. We are looking to bring the added value of ARTA 8 services to the market by creating different Unique Selling Points ("USPs") for MVNO's running on it. These USPs will be based on the platform capabilities like our presence (location, state, context) capabilities, our routing and mash-up capabilities delivering convergent services, or our ability to create new services with a world record time to market. This creates value for all parties in the value chain. We provide access to Mobile 2.0 to the world outside smart phones (offering Mobile 2.0 functionality on regular phones) and bring the mobile to the door of social networks as we are not bound to one type of handset or operating system.

The MVNE platform in The Netherlands will be an important stepping-stone to a further roll out of the ARTA 8 concepts and services to the rest of the world.

### *Pipeline*

The following opportunities are currently our main focus:

- (1) Europe
  - Requests from existing customers to extend their platforms
  - MVNE and mobile applications platform in The Netherlands
    - New multi reseller MVNO's with value added offering based on ARTA 8 functionality
    - Media groups
    - Hosters and SMS brokers to enhance their offerings with mobile and location capabilities
  - Enabling offers on existing MVNE platform in Belgium
  - Working with handset suppliers and operating system suppliers for roll out of our LBS solution

- (2) India
  - Hosted LBS system for some M(V)NO's
  - MVNO system for a starting operator
  - Opportunities to deliver LBS software to handset suppliers
  - LBS solution for fleet and asset tracking with multiple MNO's
  - Event solutions based on ARTA 8 Presence solutions
  
- (3) Other Emerging Markets (Africa, South America and Middle East)
  - Positioning ARTA 8 with existing and new partners in these fast growing markets for:
    - MVNO
    - Location based solutions
  
- (4) United States
  - Several MVNE opportunities, with different value added services
  - Least Cost Routing solutions

#### *Organisation*

In the first half of this fiscal year, the organisation has been changed to adapt to the goals and strategy set by the Company. The management team has successfully led the required cultural change and is proud of the focused, experienced and dedicated team of loyal professional employees that resulted. The Company has also made good progress in expanding its network of business development and technology partners.

#### *Financial Results*

As explained in the CEO statement accompanying the financial results of 30 June 2009, the Company drafted an ambitious longer term strategic plan at the beginning of current financial year. This plan not only moves the Company in the direction of an OPEX business model (predictable recurring revenue) but also has significant cost saving measures embedded in it (significantly reducing operating expenses). The plan provides a clear roadmap for the Company to become cash flow breakeven during 2011.

Reported Revenue for the six months to 31 December 2009 of £1.2 million (2008 restated: £3.6 million) was generated primarily from professional services rendered to existing customers. It does not comprise a reversal of the deferred income position established per 30 June 2008 with respect to the KPN deal and, as such, represents 'newly acquired' revenue (bespoke project delivery). The Company generated a gross profit of £0.9 million or 74.4% of reported revenue (2008 restated: £1.6 million or 43.8% of reported revenue) and incurred an operating loss of £1.3 million (2008 restated: £3.7 million), inclusive of operating expenses of £2.3 million (2008 restated: £5.3 million).

Operating loss includes a charge for share-based payments of £0.2 million. The underlying operating costs of the business before exceptional items are £2.1 million, contributing to an operating loss before exceptional items of £1.1 million. This represents an improvement of 57.7% over the same period last year (2008 restated before exceptional items: £4.2 million)

In the six month period to 31 December 2009, reported revenues were in line with management expectations. At the same time and without any negative impact on client service levels, (both with regard to maintenance side and delivery), we have been able to realise the most significant cost savings and, more importantly, we firmly believe that these will be sustainable in the medium to long term. This implies the Company is very much on track to successfully complete its transition as set forth in its plan.

*Outlook*

A difficult time lies behind us but the period of restructuring and stabilization has now come to an end. The focus is on the future and the development of our business, where the services provided by our platform through the ARTA MVNE is leading to exciting opportunities. We are on track to deliver the targets of our business plan, aiming at cash flow breakeven in 2011. The management team is highly motivated and focused to deliver against the targets set.

\* \* \* \* \*

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	6 months ended 31 December 2009 Unaudited £'000	6 months ended 31 December 2008 - Restated Unaudited £'000	Year ended 30 June 2009 Audited £'000
<b>Continuing Operations</b>				
Revenue		1,213	3,639	5,637
Cost of sales		(311)	(2,044)	(2,620)
<b>Gross profit</b>		902	1,595	3,017
Other operating income		106	12	303
Administrative expenses		(2,293)	(5,291)	(11,933)
Restructuring costs		-	-	(789)
<b>Operating loss</b>		(1,285)	(3,684)	(9,402)
Finance income		726	113	363
Finance costs		(367)	(184)	(2,390)
<b>Loss before tax</b>		(926)	(3,755)	(11,429)
Tax		46	56	107
<b>Loss for the period from continuing operations</b>		(880)	(3,699)	(11,322)
Basic and diluted loss per share from continuing operations (pence)	3	(0.97)	(5.02)	(13.65)

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	6 months ended 31 December 2009 Unaudited £'000	6 months ended 31 December 2008 - Restated Unaudited £'000	Year ended 30 June 2009 Audited £'000
<b>Loss for the period</b>	(880)	(3,699)	(11,322)
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations	(413)	(65)	(88)
<b>Total comprehensive income for the period</b>	(1,293)	(3,764)	(11,410)

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	31 December 2009 Unaudited £'000	31 December 2008 - Restated Unaudited £'000	30 June 2009 Audited £'000
Notes			
<b>Non-current assets</b>			
Goodwill	7,296	7,296	7,296
Intangible assets	653	3,312	877
Property, plant and equipment	342	612	383
Deferred tax asset	31	49	36
	<b>8,322</b>	<b>11,269</b>	<b>8,592</b>
<b>Current assets</b>			
Inventories	-	35	-
Trade and other receivables	986	5,458	1,601
Cash and cash equivalents	2,346	2,280	1,977
Financial instruments	353	513	24
	<b>3,685</b>	<b>8,286</b>	<b>3,602</b>
<b>Total assets</b>	<b>12,007</b>	<b>19,555</b>	<b>12,194</b>
<b>Current liabilities</b>			
Trade and other payables	1,952	4,321	2,541
Obligations under finance leases	4	-	7
Bank loans	88	98	230
Provisions	211	99	810
Financial liabilities	5	1,883	-
Derivative financial instruments	5	355	-
Deferred income	6	-	89
	<b>4,493</b>	<b>4,607</b>	<b>3,588</b>
<b>Non-current liabilities</b>			
Bank loans	20	106	19
Obligations under finance leases	4	-	4
Deferred tax liabilities	170	278	223
Long term provisions	880	76	957
Deferred income	6	1,865	1,974
<b>Total liabilities</b>	<b>7,432</b>	<b>7,041</b>	<b>6,554</b>

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

		31 December 2009 Unaudited £'000	31 December 2008 - Restated Unaudited £'000	30 June 2009 Audited £'000
	Notes			
<b>Equity</b>				
Share capital	4	4,522	4,522	4,522
Share premium account		27,763	27,296	27,763
Capital redemption reserve	4	4,493	4,493	4,493
Share based payment reserve		2,010	1,472	1,782
Translation reserve		(464)	(28)	(51)
Own shares		(1,417)	(1,417)	(1,417)
Retained deficit		(32,332)	(23,824)	(31,452)
<b>Total equity</b>		4,575	12,514	5,640
<b>Total liabilities and equity</b>		12,007	19,555	12,194

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	6 months ended 31 December 2009 Unaudited £'000	6 months ended 31 December 2008 - Restated Unaudited £'000	Year ended 30 June 2009 Audited £'000
<b>Net cash used in operating activities</b>	2	(1,605)	(2,086)	(3,149)
<b>Investing activities</b>				
Interest received		262	113	363
Purchases of property, plant and equipment		(2)	(226)	(120)
Proceeds from disposal of property, plant and equipment		-	47	43
Purchase of intangibles		-	(1,128)	(1,045)
<b>Net cash from / (used in) investing activities</b>		260	(1,194)	(759)
<b>Financing activities</b>				
Repayments of obligations under finance leases		(3)	(68)	(56)
Proceeds on issue of shares		-	2,284	2,284
Proceeds from swap		50	142	436
Convertible loan issued		2,250	-	-
New bank loan received		-	155	211
Bank loan repayment		(141)	(64)	(75)
<b>Net cash from financing activities</b>		2,156	2,449	2,800
<b>Net increase/(decrease) in cash and cash equivalents</b>		811	(831)	(1,108)
<b>Cash and cash equivalents at beginning of the period</b>		1,977	3,173	3,173
Effect of foreign exchange rate changes		(442)	(62)	(88)
<b>Cash and cash equivalents at the end of the period</b>		2,346	2,280	1,977

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Share based payment reserve £'000	Translation reserve £'000	Own shares £'000	Retained deficit £'000	Total £'000
<b>Balance at 1 July 2008 as previously reported</b>	2,939	24,622	4,493	1,639	165	(2,550)	(18,539)	12,769
Adjustments (note 6)	-	-	-	-	(128)	-	(1,586)	(1,714)
As restated	2,939	24,622	4,493	1,639	37	(2,550)	(20,125)	(11,055)
Shares issued	1,583	2,674	-	-	-	-	-	(4,257)
Loss for the period	-	-	-	-	-	-	(3,699)	(3,699)
Other comprehensive income for the period	-	-	-	-	(65)	-	-	(65)
Total comprehensive income for the period	-	-	-	-	(65)	-	(3,699)	(3,764)
Employee share option scheme	-	-	-	(167)	-	1,133	-	966
<b>Balance at 31 December 2008</b>	4,522	27,296	4,493	1,472	(28)	(1,417)	(23,824)	12,514

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Share based payment reserve £'000	Translation reserve £'000	Own shares £'000	Retained deficit £'000	Total £'000
<b>Balance at 1 July 2009</b>	4,522	27,763	4,493	1,782	(51)	(1,417)	(31,452)	5,640
Loss for the period	-	-	-	-	-	-	(880)	(880)
Other comprehensive income for the period	-	-	-	-	(413)	-	-	(413)
Total comprehensive income for the period	-	-	-	-	(413)	-	(880)	(1,293)
Recognition of share based payments	-	-	-	228	-	-	-	228
<b>Balance at 31 December 2009</b>	4,522	27,763	4,493	2,010	(464)	(1,417)	(32,332)	4,575

**ARTILIUM PLC**  
**HALF-YEARLY FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS**

**1. Significant accounting policies**

**Basis of accounting**

These unaudited and condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRSs as adopted by the European Union including IAS 34 – *Interim Financial Reporting*. The consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as in the 30 June 2009 annual consolidated financial statements.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Artilium plc (“the Company”) and the entities controlled by the Company (together “the Group”). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Going concern**

The Directors have adopted the going concern basis in preparing the accounts, having carried out a going concern review. In the course of November 2009 the Company issued unsecured loan notes raising £2.2 million (€2.5 million). These loan notes have been placed with certain existing shareholders of the Company. The purpose of the loan note issue is to secure funding until the Group achieves cash flow break even, which the Board currently expects in 2011.

In carrying out the review the Directors have made assumptions about the revenue that will be generated in the financial years ending 30 June 2010 and 2011. The Directors have forecast that there will be an increased focus on sales and that the launch of the new version of the ARTA software will considerably increase revenue relative to the year ended 30 June 2009. The new go-to-market strategy (OPEX versus CAPEX) will have the consequence that incoming cash flow will be spread over the total life of the product deployment as opposed to licence sales where the cash is paid upfront. This OPEX model will give the Group greater visibility and predictability of its revenues. However, as this future revenue is not supported by sales contracts there is material uncertainty as to the amount of revenue that the Group will generate.

Accordingly the Group adjusted its cost base to reflect and fit with this new business model in course of the year ended 30 June 2009. The real effect of these changes has now started to show in the current financial year. Although the Group’s track record for the 6 months ended 31 December 2009 indicates that the predicted cost level reductions can be maintained, these cost base reductions are quite significant and being unable to meet these could have a material impact on the Group’s going concern status.

As highlighted above, there is a material uncertainty related to events or conditions which may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

### **Carrying value of long-term assets**

The Directors have carried out impairment tests on the carrying value of the Group's intangible assets and goodwill and concluded that these assets are not impaired. In arriving at this conclusion the Directors have made assumptions about revenue in the near and longer term, which, due to the nature of the Group's sales and the time-scales involved are not supported by sales contracts. There is thus material uncertainty as to the amount of revenue that will be generated, which may cast significant doubt as to the carrying value of these assets.

For the purpose of impairment testing the Group as a whole is considered as one single cash-generating unit because of the way it is structured, managed and measured by management. The Group tests goodwill and other intangible assets annually for impairment or more frequently if there are indications that it might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other intangible assets and finally to property, plant and equipment.

Cash flows for the impairment test have been forecast for five years and a terminal value has been calculated for the years beyond that. The terminal value is based on the year five net cash flows forecast to perpetuity using a discount rate of 15%, which is appropriate for the industry, and a long term growth rate of 3%. Based on these assumptions the recoverable amount exceeds the carrying amount by £16.3 million. If the net present value of forecast future cash flows decreased by 67.45% the recoverable amount will be less than the carrying amount.

## 2. Notes to the consolidated statement of cash flows

	6 months ended 31 December 2009 Unaudited £'000	6 months ended 31 December 2008 - Restated Unaudited £'000	Year ended 30 June 2009 Audited £'000
Loss from continuing operations	(880)	(3,699)	(11,322)
<b>Adjustments for:</b>			
Finance income	(262)	(113)	(363)
Taxation	(46)	(56)	(107)
Depreciation of property, plant and equipment	63	73	163
Impairment of intangible assets	-	-	2,118
Amortisation of intangible assets	233	264	498
Share based payment expense	228	966	142
Bonus shares	-	-	1,133
Loss on disposal of property, plant and equipment	-	22	58
Increase / (decrease) in provisions	(676)	62	1,753
Fair value of financial instruments	(464)	1,294	1,972
Amortized cost of convertible loan and interest rate swap	54	-	-
Other	102	344	42
Operating cash flows before movements in working capital	(1,648)	(843)	(3,913)
Decrease / (increase) in inventories	-	(7)	28
Decrease / (increase) in receivables	615	(1,979)	1,878
(Decrease) / increase in payables	(572)	743	(1,142)
<b>Cash used by operations</b>	-	(2,086)	(3,149)
<b>Net cash outflow from operating activities</b>	(1,605)	(2,086)	(3,149)

### 3. Loss per share

The share options in issue do not have a dilutive effect as the market price of ordinary shares is below the exercise price of the options during the financial year. As a result, diluted loss per share is the same as basic earnings per share.

	6 months ended 31 December 2009 Unaudited £'000	6 months ended 31 December 2008 - Restated Unaudited £'000	Year ended 30 June 2009 Audited £'000
<b>Losses</b>			
Losses from continuing operations for the purposes of basic and diluted loss per share being net losses	(880)	(3,699)	(11,322)
	<b>No.</b>	<b>No.</b>	<b>No.</b>
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	90,446,964	73,740,945	82,922,637
Loss per share (pence)	(0.97)	(5.02)	(13.65)

#### 4. Share capital

	31 December 2009 Unaudited £'000	31 December 2008 Unaudited £'000	30 June 2009 Audited £'000
<b>Fully paid ordinary shares:</b>			
Authorised:			
300,000,002 (31 December 2008: 210,135,390) ordinary shares of 5p each	15,000	10,507	15,000
<b>Issued and fully paid:</b>			
90,446,964 (31 December 2008: 90,446,964) ordinary shares of 5p each	4,522	4,522	4,522
<b>Deferred ordinary shares:</b>			
Authorised:			
900,447 (31 December 2008: 900,447) deferred ordinary shares of £4.99 each	4,493	4,493	4,493

	31 December 2009 Unaudited		31 December 2008 Unaudited		30 June 2009 Audited	
	No. '000	£'000	No. '000	£'000	No. '000	£'000
<b>Fully paid ordinary shares:</b>						
Balance at beginning of financial year	90,447	4,522	58,788	2,939	58,788	2,939
Trisent further consideration	-	-	302	15	302	15
Placing	-	-	21,290	1,065	21,290	1,065
Lanstead Capital L.P. Placing	-	-	10,067	503	10,067	503
<b>Issued and fully paid:</b>	90,447	4,522	90,447	4,522	90,447	4,522

## 5. Convertible loan notes

The Company issued 2.5 million 10.0% Euro denominated convertible loan notes on 5 November 2009 at an issue price of 1 Euro per note. Each note entitles the holder to convert to one ordinary share at a cost of 20p per share £Sterling. The loan notes are convertible at the instance of the holders at any time after 30 April 2010. The loan notes shall also become repayable or convert into Ordinary Shares on the earlier of an acquisition requiring shareholder approval or 18 months after the date of the Loan Notes Instrument. If the notes have not been converted, they will be redeemed on the earlier of a major acquisition approved by shareholders or 30 June 2012. Interest of 10.0% will be paid annually until that settlement date.

The net proceeds received from the issue of the convertible loan notes have been split between the financial liability element and a derivative financial instrument component, by using an option pricing model.

	£'000
Proceeds of issue	2,250
Liability component at date of issue	(1,827)
Derivative financial instrument component	<u>423</u>

The derivative financial instrument of £423,000 has been credited to the current liabilities.

The liability component is measured at amortised cost. The interest expense for the year (£56,000) is calculated by applying an effective interest rate of 17.6% to the liability component for the two-month period since the loan notes were issued. No interest was paid in the period since issue. The difference between the carrying amount of the liability component at the date of issue (£1.827 million) and the amount reported in the statement of financial position at 31 December 2009 (£ 1.883 million) represents the effective interest rate.

The Group has designated its derivative financial instrument as financial liabilities at fair value through profit or loss (FVTPL) as permitted by IAS 39 Financial Instruments: recognition and measurement. The difference between the carrying amount of the derivative financial instrument component at the date of issue (£423,000) and the amount reported in the statement of financial position at 31 December 2009 (£355,000) represents the change in the fair value of the financial instrument. The change in the fair value results in an income of £67,000 which is recognized in profit and loss under finance income.

## 6. Disclosure of prior period errors

The reassessment of the deliverables of the KPN licence agreement of 19 March 2008 has led to a restatement of revenue for the year ended 30 June 2008 under the applicable revenue recognition policy. The product functionality that we committed to KPN in the licence agreement was not yet fully delivered in the year ended 30 June 2008 when the revenue under that contract was fully recognised for accounting purposes.

As part of the reassessment the new management team has completed an exercise to estimate the relative fair values of software delivered in the prior and current year and of software and functionalities yet to be delivered. Since the revenue under this contract was fully recognised in

the year ended 30 June 2008 a restatement of results for the year ended 30 June 2008 was required.

The outcome of the valuation exercise was that based on the relative fair value of delivered and to be delivered functionalities, 56.7% of the contract deliverables were delivered in the year ended 30 June 2008 (£2.5 million). As at 31 December 2009, 41.5% (£1.9 million) of the software is still to be delivered and this amount is held on the balance sheet as deferred income. The licence fee of €5.0 million (£4.5 million) relating to this contract has been received in full. A provision has been recognised for the year ended 30 June 2009 for the estimated loss for the delivery of the maintenance and support services under this agreement. As of 1 July 2009, this provision is gradually released (pro rata temporis) as the contract evolves towards its expiry on 1 March 2012.

As the KPN licence agreement dates back to 19 March 2008, only the financial statements for the year ending 30 June 2008 have been restated. Following are the financial statement lines per 31 December 2008 affected by that restatement.

	6 months ended 31 December 2008 - Restated Unaudited £'000	6 months ended 31 December 2008 Unaudited £'000
Retained earnings	(23,824)	(22,238)
Translation reserve	(28)	449
Deferred Income (current)	89	-
Deferred Income (non current)	1,974	-

## 7. Status of half-yearly financial statements

The condensed set of half-yearly financial statements for the six months ended 31 December 2009 is unaudited and does not constitute statutory accounts as defined by The Companies Act 2006. The comparative figures for the period to 31 December 2008 are also unaudited. The comparative figures for the year to 30 June 2009 are extracted from the statutory accounts to that date, on which the auditor's report was modified. A copy of those statutory accounts has been filed with the Registrar of Companies.

## 8. Further Copies

Copies of the half-yearly financial report are available from the Company's registered office at 7th Floor, City Point, One Ropemaker Street, London, EC2Y 9AW.

## **INDEPENDENT REVIEW REPORT TO ARTILIUM PLC**

### **Introduction**

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 31 December 2009 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and the related notes.

We have read the other information contained in the half yearly financial report which comprises only the financial highlights and the chief executive's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusion we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

The annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union..

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Basis for qualified conclusion**

The auditor's report on the statutory financial statements for the year ended 30 June 2009 included a disclaimer of opinion because the auditor concluded that they were unable to ascertain, for the group's most material contract, whether management's estimates of the fair value of both the delivered and undelivered elements of the contract were reasonable.

It remains the case, due to the nature of the contract, that there is insufficient information available to draw a conclusion as to the accuracy of management's estimates of the fair value of both the delivered and undelivered elements of the contract, both at the start and the end of the period under review. Accordingly it is not possible to reach a conclusion as to whether or not the amounts of revenue stated for the periods concerned are fairly stated.

**Qualified conclusion**

Except for the adjustments to the half-yearly financial report that might be required in respect of the matter noted above, based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 31 December 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

**Emphasis of matter**

We draw your attention to the following matters:

*Going concern*

We draw attention to the disclosures in note 1 concerning the Group's ability to continue as a going concern. As explained in note 1 the Group is reliant on its ability to meet revenue targets during the next 12 months to provide sufficient finance to continue in operation. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Our review conclusion is not qualified in respect of this matter.

*Intangible assets and goodwill*

We also draw attention to the disclosures in note 1 concerning the carrying value of the Group's goodwill of £7.3m and other intangible assets of £0.7m. As explained in note 1, in determining the carrying amounts of the Group's goodwill and intangible assets, the Directors have made assumptions about future revenues which are not supported by sales contracts. Our review conclusion is not qualified in respect of this matter.

GRANT THORNTON UK LLP  
AUDITOR  
SLOUGH  
24 March 2010