

Software Radio Technology plc

Transition to International Financial Reporting Standards

Software Radio Technology plc ('SRT plc' or 'the Group' or 'the Company'), the AIM-listed developer and licensor of sophisticated wireless technology, will be reporting its financial results in accordance with International Financial Reporting Standards ('IFRS') with effect from 1 April 2007. On 5 November 2007 the Group will report its interim results for the six months ended 30 September 2007 under IFRS, including the restated comparatives for the six months to 30 September 2006.

This statement presents and explains the conversion of the Group's results as previously reported under UK Generally Accepted Accounting Principles ('UK GAAP') onto an IFRS basis for the year ended 31 March 2007.

The key changes for the Group are as follows:

- goodwill is no longer amortised; and
- the recognition of a liability for employees' unused entitlement to annual leave

The net impact of these changes for the year ended 31 March 2007 is a £50,217 decrease in the Group's loss before taxation, and a reduction in the basic loss per share from 3.83 pence to 3.76 pence.

The transition to IFRS has no effect on the cash flows of the business.

Full details are set out in this announcement.

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Transition to International Financial Reporting Standards

1 Introduction

EU law (IAS Regulation EC 1606/2002) and AIM notice 22 require that the next annual consolidated financial statements of the Company, for the year ending 31 March 2008, be prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union (collectively "IFRS").

The results for the year ended 31 March 2007 have been restated from UK GAAP to IFRS, adopting a 1 April 2006 transition date. This announcement presents and explains this restatement.

Our first results to be published under IFRS will be for the half year to 30 September 2007, which will be reported in an announcement to be issued on 5 November 2007.

2 Basis of preparation

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) or are expected to be endorsed and effective (or available for early adoption) at 31 March 2008, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRS's, the directors have made assumptions about the accounting policies expected to be applied, which are as set out in section 6, when the first annual IFRS financial statements are prepared for the year ending 31 March 2008.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2008 are still subject to change and further interpretation and therefore

cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2008.

The financial information contained in this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The figures prepared under IFRS shown in this statement are unaudited. The consolidated statutory financial statements of SRT plc for the year ended 31 March 2007 prepared under UK GAAP have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

3 Transition to IFRS - first time adoption

IFRS 1 'First-time Adoption of International Financial Reporting Standards' sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies for the year ending 31 March 2008 and, in general, apply these retrospectively to determine the IFRS opening balance sheet as at its date of transition, 1 April 2006. This standard permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS during the transition period. As permitted under the transitional provisions of IFRS 1, the relevant exemption adopted by the Group is set out below.

i) Business combinations

The Group has chosen not to restate business combinations completed prior to the transition date on an IFRS basis.

4 Principal differences to UK GAAP

i) Intangible assets

The Group had previously opted to capitalise qualifying development expenditure in line with SSAP 13 'Accounting for Research and Development' under UK GAAP. For the purposes of considering the impact of transition, the relevant requirements of IAS 38 'Intangible assets' have been compared to the capitalisation criteria and approach adopted under SSAP 13.

Our review has concluded that there are no significant differences between the approach previously adopted under UK GAAP and the requirements of IAS 38 and consequently no transition adjustments have been made to the development expenditure previously capitalised.

IAS 38 also requires computer software to be classified as an intangible asset. This has resulted in a balance sheet reclassification from property, plant and equipment to intangible assets at 31 March 2007 of £2,331.

ii) Business combinations and goodwill

The Group has not undertaken any business combinations in the period since the 1 April 2006 and, as noted above, has chosen not to restate business combinations completed prior to the transition date.

The goodwill recognised by the Group at 1 April 2006 of £112,158, which relates to a business combination completed on 5 December 2002, is to no longer be amortised from that date but will instead be subject to an annual impairment review in line with the requirements of IFRS 3 'Business Combinations' and IAS 36 'Impairment of Assets'. As a result, the UK GAAP amortisation charge of £67,296 for the year to 31 March 2007 has been reversed.

iii) Employee benefits

In accordance with IAS 19 'Employee benefits' the Group is required to recognise a liability for employees' unused entitlement to annual leave. Therefore, an additional accrual amounting to £57,396 has been recognised at 31 March 2007.

5 Restatement of financial information under IFRS

The financial information set out in this section has been prepared on the basis of the accounting policies set out in section 6. An explanation of the principal effects of transition to IFRS is provided above in section 4.

i) Consolidated Income Statement for the year ended 31 March 2007

The reconciliation below shows the UK GAAP profit and loss account presented in an IFRS Consolidated Income Statement format and the adjustments to the reported performance for the period required as a result of the adoption of IFRS.

	UK GAAP £	IAS 38 Intangible assets £	IFRS 3 Business combinations £	IAS 19 Employee benefits £	IFRS £
Revenue	1,817,588				1,817,588
Cost of sales	(1,628,531)			(17,079)	(1,645,610)
Gross profit	189,057			(17,079)	171,978
Administrative expenses	(3,237,494)		67,296		(3,170,198)
Operating loss	(3,048,437)		67,296	(17,079)	(2,998,220)
Finance income	85,791				85,791
Finance costs	-				-
Loss before income tax	(2,962,646)		67,296	(17,079)	(2,912,429)
Taxation	-				-
Loss for the year	(2,962,646)		67,296	(17,079)	(2,912,429)
Basic and diluted loss per share	(3.83)p				(3.76)p

ii) Consolidated Balance Sheet as at 31 March 2007

The reconciliation below shows the UK GAAP balance sheet presented in an IFRS format and the adjustments to the reported position required as a result of the adoption of IFRS.

	UK GAAP £	IAS 38 Intangible assets £	IFRS 3 Business combinations £	IAS 19 Employee benefits £	IFRS £
Assets					
Non-current assets					
Intangible assets	4,883,768	2,331	67,296		4,953,395
Tangible assets	522,485	(2,331)			520,154
Total non-current assets	5,406,253		67,296		5,473,549
Current assets					
Inventories	161,938				161,938
Trade and other receivables	2,971,612				2,971,612
Cash and cash equivalents	317,005				317,005
Total current assets	3,450,555				3,450,555
Liabilities					
Current liabilities					

Trade and other liabilities	(1,589,170)		(57,396)	(1,646,566)
Total current liabilities	(1,589,170)		(57,396)	(1,646,566)
Net assets	7,267,638	67,296	(57,396)	7,277,538
Shareholders equity				
Ordinary shares	78,288			78,288
Share premium	7,787,787			7,787,787
Other reserves	5,719,383			5,719,383
Retained earnings	(6,317,820)	67,296	(57,396)	(6,307,920)
Total equity	7,267,638	67,296	(57,396)	7,277,538

iii) Consolidated Balance Sheet as at 1 April 2006

The reconciliation below shows the UK GAAP balance sheet presented in an IFRS format and the adjustments to the reported position required as a result of the adoption of IFRS.

	UK GAAP £	IAS 38 Intangible assets £	IFRS 3 Business combinations £	IAS 19 Employee benefits £	IFRS £
Assets					
Non-current assets					
Intangible assets	2,860,875	6,469			2,867,344
Tangible assets	324,199	(6,469)			317,730
Total non-current assets	3,185,074				3,185,074
Current assets					
Inventories	290,091				290,091
Trade and other receivables	1,903,977				1,903,977
Cash and cash equivalents	1,233,431				1,233,431
Total current assets	3,427,499				3,427,499
Liabilities					
Current liabilities					
Trade and other liabilities	(890,347)			(40,317)	(930,664)
Total current liabilities	(890,347)			(40,317)	(930,664)
Net assets	5,722,226			(40,317)	5,681,909
Shareholders equity					
Ordinary shares	69,045				69,045
Share premium	3,659,873				3,659,873
Other reserves	5,724,512				5,724,512
Retained earnings	(3,731,204)			(40,317)	(3,771,521)
Total equity	5,722,226			(40,317)	5,681,909

iv) Cash flow Statement for the year ended 31 March 2007

The reconciliation below shows the UK GAAP cash flow statement presented in an IFRS format and the adjustments to the reported performance for the period required as a result of the adoption of IFRS.

	UK GAAP £	IAS 38 Intangible assets £	IFRS £
Cash flows from operating activities			
Cash generated from operations	(2,503,430)		(2,503,430)
Interest received	85,791		85,791
Net cash from operating activities	(2,417,639)		(2,417,639)
Cash flows from investing activities			
Purchase of intangible fixed assets	(2,218,164)	(1,620)	(2,219,784)
Purchase of tangible fixed assets	(412,651)	1,620	(411,031)
Net cash used in investing activities	(2,630,815)		(2,630,815)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	4,132,028		4,132,028
Net cash used in financing activities	4,132,028		4,132,028
Net decrease in cash and cash equivalents	(916,426)		(916,426)
Cash and cash equivalents at 1 April	1,233,431		1,233,431
Cash and cash equivalents at 31 March	317,005		317,005

6 IFRS Accounting Policies

The Group's principal accounting policies applied in preparing this financial information are set out below.

Basis of preparation

This financial information has been prepared under the historical cost convention and in accordance with the UK Companies Act 1985 and on a basis consistent with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union and interpretations expected to be in issue at 31 March 2008.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of SRT plc and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern their financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Revenue

The Group follows the principles of IAS 18 'Revenue recognition' in determining appropriate revenue recognition policies. Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue, which is presented net of discounts, VAT and other sales related taxes, comprises the value of sales of Marine products, royalties arising from the sale of PMR reference design components, revenues from technology licence and product development support contracts.

Revenue from the sale of Marine products and in respect of royalties arising from the sale of PMR reference design components is recognised when the risks and rewards of ownership of the product or component is transferred to the customer, which is usually upon the delivery of the goods to the customer.

Revenue from technology licence and product development support contracts is recognised on a percentage of completion basis which is calculated as the number of actual contract hours to date compared to the total estimated contract hours requirement, which approximates to the extent of performance. If the amount of revenue recognised exceeds the amounts invoiced to customers, the excess amount is recorded as amounts recoverable on contracts within receivables. Where the position is reversed (i.e. the amount invoiced exceeds the amounts of revenue recognised) the excess is recognised as deferred revenue within liabilities.

Research and development

Research expenditure is written off to the Consolidated Income Statement in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied that capitalisation criteria set out in IAS 38 'Intangible Assets' have been met, including consideration of the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit, currently considered to be five years.

Development expenditure capitalised represents time spent by Company employees and sub-contractor costs, valued at cost.

Goodwill

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration and directly attributable costs over the fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is not amortised. However, it is reviewed annually for any indication of potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Property, plant and equipment

Property, plant and equipment items are stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of fixed assets to their residual values on a straight-line basis over the following estimated useful economic lives:

Plant and machinery - 2 – 10 years

Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In addition, goodwill is reviewed for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less disposal costs) and value in use.

Value in use is based on the present value of the future cash flows relating to the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units).

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be utilised.

Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Pension costs

The Group operates defined contribution pension schemes. Contributions are charged in the Consolidated Income Statement as they become payable in accordance with the rules of the scheme.

Leases

Rental costs under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

Foreign currencies

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the Consolidated Income Statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition.

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgment must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model, which is dependant on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and call deposits which have maturity of three months or less.