

To Surfcontrol Shareholders

**UK Shareholders Association**  
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You should have received today (or will very soon) a copy of the Surfcontrol Annual Report. It includes a notice of the Annual General Meeting (AGM) which is on the 19th October at 11.30 am in Congleton.

As you know, we have opposed the share buy-back programme that the company has been pursuing in the last year, and therefore we advise you to vote AGAINST resolution number 9 (which gives the company authority to buy-back shares). Please return the proxy form accordingly. We have no recommendation on the other resolutions.

I plan to attend the AGM in person to put the case for ceasing share buy-backs so if anyone wishes me appoint me as a proxy you can do so. If you choose to appoint me as a proxy rather than appointing the chairman as your proxy then please let me know. Alternatively of course you could attend the AGM in person and I would encourage you to do so.

The following are some brief comments on the results for the year. The results seemed to be much as the market expected although the share price did perk up somewhat afterwards. Growth in billings, which must be a key priority for this company, seems to have resumed with 5% annual growth in the fourth quarter. Clearly there has been substantial restructuring of the company in the past year, which has led to significant exceptional costs incurred during the year and a large number of staff changes. It is probably too early to say whether a return to substantial growth is likely.

The company spent US\$27 million in purchasing its own shares during the year, but still ended up with \$76 million in cash on the balance sheet at the year end. However it appears that approximately \$38 million cash will be spent on the subsequent acquisition of BlackSpider Technologies - this acquisition is unlikely to be profitable for some time however. No dividend was declared, as in previous years and on page 23 of the Annual Report it states that the policy of the company will not change in that regard. It says "*The current position is that the Company intends to use its surplus cash to provide for its future working capital requirements and to finance suitable technology or Company acquisitions to increase the Company's addressable market. Where the Board believes it is appropriate to do so, cash surplus to these requirements may be returned to shareholders through own-share purchases.*"

UKSA suggests that any return of cash to shareholders should be via a dividend, not by share buy-backs. In our view share buy-backs are equivalent to a compulsory rights issue, where the cash owned by shareholders is re-invested in the Company irrespective of the wishes of shareholders.

**UKSA—The independent voice of the private shareholder**

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After the results were announced, Chief Executive Patricia Sueltz and CFO Simon Wilson purchased shares in the Company. The purchase of shares by executive directors is usually seen as a positive sign.

Yours sincerely

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