



8th JUNE 2010

Alternative Networks plc

Interim Results for the six months to 31 March 2010

Alternative Networks plc, ('the Company' or 'the Group'), a leading independent business-to-business telecoms reseller, reports its Interim Results for the six months ended 31 March 2010.

- **Organic growth and impressive market share gains**
- **Margin improvement and excellent cash conversion**
- **Securing leading position in provision of converged telephony services**
- **Progressive dividend policy maintained**
- **Several good acquisition prospects in the pipeline**

Unaudited six months to 31 March	2010 £000	2009 £000	Change %
Underlying performance*			
Turnover	47,114	45,591	3%
Operating profit	5,685	4,314	32%
Profit before taxation	5,730	4,359	31%
Earnings per share - basic	8.6p	6.8p	26%
- diluted	8.1p	6.4p	27%
Statutory performance			
Turnover	47,114	45,591	3%
EBITDA	5,539	4,384	26%
Operating profit	4,536	3,391	34%
Profit before taxation	4,581	3,436	33%
Net cash inflow from operations	7,610	5,321	43%
Interim dividend per share **	5.0p	1.6p	213%
Earnings per share - basic	8.0p	5.8p	38%
- diluted	7.5p	5.4p	39%

* Results before amortisation on intangible assets other than computer software purchased, and share based payments.

** Calculated by taking the interim paid/proposed in each period and dividing by the shares currently in issue.

Operational highlights

- Turnover increased 3% to £47.1m (H1 2009: £45.6m)
- Strong market share gains:
 - Mobile subscriber base increased 17% to 63,543 (H1 2009: 54,278)
 - Fixed Line customer estate increased 32% to 73,562 (H1 2009: 55,780)
- Adjusted operating profits up 32% to £5.7m (H1 2009: £4.3m; H1 2008: £5.0m)
- Operating cash flow remains strong at £7.6m (H1 2009: £5.3m) and with an outstanding cash conversion ratio of 137% (H1 2009: 121%)
- AKJ acquisition in October 2009 is performing in line with expectations.

Corporate Highlights

- The interim dividend of 5p was paid on 1 April 2010, which included a second interim dividend of 3p. The underlying increase in the first interim dividend is a 25% increase to 2p (2009: 1.6p)
- Share buy backs undertaken in the period with £0.3m returned to shareholders since 30 September 2009 (2009: £0.7m).

James Murray, Chief Executive Officer, commented:

"We have delivered an excellent set of results in a challenging economic climate, which is testament to the strength of our business model and management controls. We have made some excellent gains in market share, underlining our competitive strength and quality of service. Most pleasing of all has been our ability to cross sell products, a key differentiator against our peer group, and indicative of the increasing trend of convergence.

"The acquisition of AKJ has worked very well, with the business performing strongly and proving a good addition to the Group. Our financial strength leaves us well placed to complement our organic growth with further acquisitions, several opportunities for which are currently being discussed. We have a strong and reliable engine for growth and consider the business to be extremely well positioned, holding the key to converged communications in the SME market."

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Chairman's Statement

I am pleased to report a strong set of interim results against the backdrop of a competitive market and an economic environment which remains challenging.

The Group has had a strong first half, with organic growth and a strong increase in market share, particularly in fixed line and mobile. It continues to generate an excellent level of cash, with free cash flow increasing to £6.4m ahead of £4.0m generated in the comparative period last year.

We continue to perform well operationally, with customer attrition remaining at historically low levels, and the Group added new clients in its target market of businesses with 80-1000 employees.

One of Alternative Networks' key differentiators is its proven ability to cross sell products. The Group is in an excellent position to gain further market share in the SME market as the trend for convergence increases. We made further progress in the period in increasing the product penetration into our customer base and growing the number of larger clients taking more than one product.

Our strong balance sheet and the successful integration of AKJ means that the Board continues to target earnings enhancing acquisitions. The political change and economic uncertainty is expected to create more opportunities to acquire owner-managed independent businesses, and we are well placed to take advantage of these opportunities as they arise.

The Group paid an interim dividend of 5.0 pence per share (2009: 1.6 pence) on 1 April 2010 (2009: 17 July 2009). The Board has indicated that the final dividend is expected to be no less than 3.5 pence, payable in January 2011.

The Board does not consider that this represents a material shift in dividend policy, which has been progressive. As in prior years, the Board will continue to monitor cash levels and will look to return cash where considered in the best interests of the shareholders to do so.

We have a highly capable and experienced management team with the strategic vision for achieving further growth. Armed with a strong balance sheet and a sound business that is growing market share and leading the way in the provision of converged telephony services, we remain confident in further growth.

Tony Caplin
Non-executive Chairman

Business Review

This has been a positive six months for the Group, rebuilding momentum after a difficult year in 2009. The headline figures show revenues, gross margins, operating profits and cash generated all increasing on the comparative period. On a comparable basis, stripping out the small acquisition of AKJ, there were some strong gains in market share in fixed line and mobile services which resulted in underlying net organic sales growth for the Group, despite the market remaining highly competitive.

Cash generation remained excellent with free cash flow of £6.4m (2009: £4.0m). This has meant that despite spending £3.7m on buying AKJ at the end of October 2009, and £1.9m in dividends and share buybacks, the Group ended the period with higher period end cash balances of £10.3m.

The Board believes the Group is uniquely positioned to provide a truly converged communications offering to its target SME market; a position which is attractive to both its customers and suppliers. Growth prospects are exciting with cross selling continuing to prosper, aided by a highly productive direct sales force. We have made clear progress on acquisitions during the period and expect further progress in the second half of the year.

Results Overview

Total sales increased 3% to £47.1m. AKJ, acquired at the end of October 2009 contributed £1.4m, after stripping out intra-group sales. Overall there was some modest organic growth, ahead of expectations. This was achieved in spite of systems hardware sales declining £1.3m as larger enterprises and the public sector deferred investment decisions.

- Mobile sales were ahead 1.4% to £21.5m (2009: £21.2m), with subscriber base increases assisted by stabilising ARPU and consistent low churn.

- Fixed line revenues were up 6% to £18.1m (2009: £17.0m), and the first annual growth recorded since the period ended 31 March 2008. The growth was centred on line rentals which were up 28% to £6.4m, reflecting a 32% increase in customer base year on year, and considerably more than offsetting the reduction in minutes revenues.
- Advance solutions sales were slightly increased to £7.5m (2009: £7.4m), with £1.4m of revenues from AKJ replacing the £1.3m decline in IP Pbx sales, and the data and maintenance support revenues stable year on year.

Gross Margins have increased from 35% to 36.2%, and were slightly ahead of management expectations, giving confidence for the remainder of the year. Even stripping out the impact of AKJ's higher margins, the margins for the period increased to 35.5%, compared to 35% for the first 6 months of 2009. Margins in each product set are reviewed in more detail below, with notable increases in Mobile and Advance Solutions. The decline in Fixed Line margins is largely due to the change in sales mix and Ofcom regulation on inbound revenue share.

Adjusted operating profit has increased 32% to £5.7m from £4.3m in 2009. With over £0.2m contributed by AKJ, the remainder £1.2m came from organic growth, specifically a £0.5m increase in gross profits and £0.7m reduced overheads. The expected cost savings of £1.2m (£2.4m annualised) announced in 2009 have been delivered but partly offset by an additional £0.3m investment in marketing and sales teams, and £0.2m increase in performance related bonuses. The adjusted operating profit is stated before non-cash intangible asset amortisation of £0.69m (H1 2009: £0.65m), and share option costs of £0.46m (H1 2009: £0.27m).

Adjusted operating profit margins have increased to 12.1% (H1 2009:9.5%; H1 2008:10.9%), reflecting the lower cost base of the business, and improved gross margins generated both organically and by acquisition.

Statutory profits before tax have increased 33% from £3.4m to £4.6m.

Net funds and facilities

EBITDA cash conversion was excellent at 137% (H1 2009: 121%). For the six months to 31 March 2010, the group generated £7.6m of cash from operations (H1 2009: £5.3m). This was boosted by a net inflow of £1.8m from working capital, (H1 2009: £0.7m inflow). It is expected that for the full 12 months to 30 September 2010 a net inflow of £1m will be achieved, driven principally by continued tight debt management, the increase in Vat liability due to the rate changes to date, by the increase in provisions for future mobile hardware liabilities and by an increase in deferred income as lead times for hardware jobs have been extended.

Period end cash balances were £10.3m up from £9.0m at 30 September 2009. Net funds are £9.4m and the Group has available banking facilities of £12m, which are currently unutilised. These facilities are renewable in January 2011, and the Group is already in appropriate discussions with its bankers.

On 17 December 2009, the Group completed the sale of surplus freehold offices at 27-33 Burr Road, London SW18 5JU, which had formed part of Echo Communications, which was acquired in 2007. The net proceeds received were £719,000.

Earnings per share

Underlying fully diluted earnings per share have increased by 27% from 6.4p to 8.1p. The adjustments relate to amortisation of intangibles (acquired), and the exceptional tax deduction arising on the exercise of share options by employees. Share based payments are deducted in full from profits for earnings calculations.

Basic earnings per share were up from 5.8p to 8.0p. The weighted average shares in issue were reduced by 0.4m on the comparative period, due to shares repurchased in the last 12 months, outweighing the 0.7m shares issued to acquire AKJ and share options exercised by staff in the year.

Dividend

The Group paid an interim dividend of 5.0 pence per share (2009: 1.6 pence) on 1 April 2010 (2009: 17 July 2009). Of that dividend, 3 pence was a second further interim dividend, being a distribution of surplus cash following the sale of property and as a result of a strong period of underlying cash generation. The timing of this payment was prior to an anticipated adverse change in taxation and the Board considered this payment to be in the best interests of shareholders. The remaining 2 pence was in lieu of an interim dividend normally paid in July but brought forward to payment in April for the same reasons. The Board has indicated that the final dividend is expected to be no less than 3.5 pence, payable in January 2011.

The Board does not consider that these actions represent any material shift in dividend policy, which has been progressive. As in prior years, the Board will continue to monitor cash levels and will look to return cash where considered in the best interests of the shareholders to do so.

Share Buy Backs

Pursuant to the authority granted at an EGM on 24 July 2008, the Group repurchased 320,000 shares, between 2 and 8 October 2009 for an aggregate sum of £359,100, being 112 pence on average per share, and subsequently cancelled them. This authority lapsed at the AGM on 25 January 2010.

At a general meeting on 29 March 2010, the Group was granted further authority to repurchase up to 4,436,085 shares before 29 March 2013. To date the Group has not repurchased any shares under that authority. The Directors will continue to monitor the level of cash required for the business and determine if further repurchases remain in the shareholders' best interests.

Review of business and KPIs by product divisions

Mobile

Mobile	2010 Group 6 months to 31 March	2009 Group 6 months to 31 March	2009 Group 12 months to 30 September
Turnover (£m)	21.5	21.2	41.6
Gross Profit (£m)	6.9	6.2	12.4
Gross Margin %	32%	29%	30%
Subscriber KPIs	63,543	54,278	55,299
AN Subscribers at period end	56,302	54,278	55,299
Managed subscribers at period end	7,241	-	-

Mobile KPIs for AN Subscriber base

AN Monthly ARPU (£)	51	55	53
Monthly average contract length	22m	22m	22m
Gross new connections in period	6,815	8,521	16,429
Network churn	18%	18%	20%
AN £ churn	15%	15%	15%
% Subscribers in-contract	80%	86%	82%
Data connections (included in above)	24,574	18,741	23,146
Data connections as % of total	44%	35%	42%

- Mobile revenues were ahead of expectations with higher ARPU than anticipated, and lower churn levels. This was achieved in spite of lower connection based subsidies received from the Networks versus a year ago. Furthermore, the addition of 7,000 managed subscribers in the period in a contract win announced in October 2009, has helped add further revenues, though underlying performance was still ahead of management expectations.
- The mobile subscriber base has grown 17% to 63,543. This includes the managed subscribers which the Group began carrying out billing and customer services for in October 2009, as mentioned above. Excluding these, the base increased 4% year on year, reflecting continued organic increases in market share.

- Business subscribers have increased to 56,302 representing a net gain of 1,003 (H1 2009: 2,288) over the 6 months since 30 September 2009. The net gains were similar to the second half of 2008, although the number of gross new connections was slightly lower than expectations. This was due to minimal growth in data-only devices, with a reduction in growth to be expected with the advance of wi-fi enabled smartphones.
- ARPU has stabilised. In this period, monthly ARPU was £51.37, reducing just 50 pence from the ARPU of the 6 months ended 30 September 2009. This is a significant improvement on last year when the comparative period saw a major fall in ARPU from £61 to £55, as the recession bit with reduced international travel and employee cut backs, compounded by major tariff reductions by the networks operators impacting in that period.

This year's stronger ARPU result has been helped by the continuing take up of smartphones, up to 29% of the subscriber base, an increase from 22% a year ago.

The negative influences on ARPU since September 2009 are:

- Reduced voice tariffs- approximately 5% reduction in voice tariffs
- Higher uptake of bundled tariffs meaning that customers have more free minutes than previously

Given last year's emphasis on the reduction in international calls driving ARPU decline, it is worth noting that in this period there has been no material change in the overall international call revenues as a percentage of total spend.

- Data connections have grown 31% over the year to 24,574 connections. The net increase of approximately 5,833 data connections is made up of 1,000 data only devices, with the balance in smartphones.
- Network churn levels have remained consistently low at 18%. It is estimated that most of the disconnections (rather than moves to another network) have resulted directly from economic downsizing in the last 18 months. The scale of the impact is illustrated by disconnections being 60% higher, during this time, including this half year, than they were in the year to 30 September 2008, before the recession bit. This level of disconnections is also exaggerated by the increased penetration of Smartphones, which frequently results in disconnections as customers convert from using two devices to one, on renewal of their contracts .

The underlying level of churn is even lower. Network churn is also higher than it would normally be due to the loss of six "bad" customers in the period - 1,250 connections on six larger customers, for which the Group could not obtain adequate credit insurance cover on renewal, and a further 250 connections on two customers for which only partial credit cover could be obtained. The loss of these high risk customers amounts to approximately 20% of the network churn, equalling 3.5% basis points.

- The level of customer attrition by value has remained at the historically low figure of 15% for the third successive half year. The number of customers in contract at the end of March 2009 has reduced to 80%, down 2% from September 2009, but remaining in the historic band of 78% – 86%.
- Mobile gross margins have increased to 32%. The increase is partly due to the new managed customer contract which is higher margin than the remainder of the mobile business. If this is excluded, the mobile margins have still increased year on year. Margins on calls and rentals were 0.5% basis points up on 2009, and this gain was partially offset by slightly lower funding from the networks for equipment. The improved margins are driven by higher penetration of Smartphones, more converged product deals, and low churn rates. The Group remains confident for the outlook for margins, which have consistently occupied the 29-31% range for several years, in spite of what remains a highly competitive market place.

Network Services

Network Services	2010 Group 6 months to 31 March	2009 Group 6 months to 31 March	2009 Group 12 months to 30 September
Turnover (£m)	18.1	17.0	33.8
Gross Profit (£m)	6.7	6.7	12.9
Gross Margin %	37%	39%	38%
Outbound KPIs			
Monthly ARPU (£)	1,193	1,062	1,080
WLR as a % of total Network Services revenues	44%	38%	40%
Number of lines/channels	73,562	55,780	67,587
Average new customer contract length (months = "m")	19m	19 m	19m
Inbound KPIs			
Turnover (£m)	3.7	3.6	6.9
Gross margin %	52%	57%	54%

- Network services revenues increased by 6% on the same period in 2009. The Group continued to take market share from its competitors, and gross profits would have advanced for the first time since 2008, were it not for the regulatory impact of 0870 price reductions in August 2009. Reported revenue growth is against an industry backdrop of declining call minutes per customer and deflationary pricing.
- In Outbound sales, revenues have increased by over 7% to £14.4m from £13.4m in 2009.
 - Outbound Wholesale Line Rental (WLR) continued to grow with an increase of 5,975 (2009: 3,518) lines since 30 September 2009, and an annual organic growth in the base size of 32%. Revenues from WLR grew 28% with the overall Group revenues growing by £1.4m to £6.4m. The number of ISDN30 channels (used by the larger customers) grew 29% and now accounts for 53% of the total estate.
 - Outbound calls revenues continued to decline but at a lower level than previous years, and were ahead of expectations due principally to net gains in customers. Call revenues were £0.4m down on the six months to 31 March 2009. A review of traffic in the comparative periods, shows that the declines were £0.3m in international call revenues and £0.1m in national call revenues. Overall, total minute volumes marginally increased year on year. Average tariffs declined at a rate of 8% (2009: 15%). Of the drop in the value of international calls, 40% was due to lower volumes, with customers making less international calls, and 60% was due to lower tariffs due to continued pressure on retail rates.
 - Outbound average revenue per customer per month ('ARPU') has increased 12%, as more customers take both line rentals and calls, and with the addition of larger customers in the period. Significant customer wins included Huntress Search and Synergy Health plc, both of whom were multi product solutions.
- Gross margins in outbound revenues were in line with expectations, falling 2.2% year on year to 32.8%. The change in the sales mix, with more rentals at lower margins and fewer higher margin call minutes, accounted for 1.5% margin point reduction; and the balance was due to slightly lower line rental margins, due to higher costs of customer acquisition being set by the market. In line with group accounting policies, these costs are expensed immediately, and not spread over the term of the contract. The implication of this is that in periods with high levels of customer acquisition, margins can appear somewhat more depressed than they may be on an ongoing basis.

- Inbound KPIs – Both revenues and gross profits were ahead of expectations in the period, with revenues marginally ahead of the comparative period in 2009. It is impossible to compare the first six months of 2010 with the previous year, as the deregulation of revenue share on 0870 numbers in August 2009 has had a dramatic impact.
 - Guidance in last year’s annual report was for lower revenues, with an annual run rate nearer £6m, with margins around 55%. However it proved difficult to predict customer responses in terms of migrating to replacement products and even more difficult to predict the level of business on those replacement products, during an economic downturn.
 - The actual increased revenues in 2010 are principally due to
 - success in winning major accounts (e.g. KLM, a former client returning) over the last twelve months, with the volume of minutes increasing 18% year on year to 133 million over 6 months.
 - more customers (than previously expected) accepting charges for receiving incoming calls on 0870, where previously they received income as a share of revenues from the Networks, and we had expected more customers would simply discontinue the service.
 - Annual revenue expectations are now nearer £7m than £6m.
 - Due to the change in sales mix, gross margins are likely to be in the region of 48-52%, rather than 53-57% previously enjoyed.

Advanced Solutions

Advanced solutions	2010 Group 6 months to 31 March	2009 Group 6 months to 31 March	2009 Group 12 months to 30 September
Turnover (£m)	7.5	7.4	14.3
Gross Profit (£m)	3.5	3.0	6.1
Gross Margin %	46%	41%	43%

Sales Analysis

AKJ Billing software and support services	1.4	-	-
IP PBX Installs (£m)	2.8	4.1	7.7
IP PBX Support ('Maintenance') (£m)	2.3	2.3	4.6
Data circuit rentals (£m)	1.0	1.0	2.0
IP PBX Support gross profit (£m)	2.0	2.1	4.2
Engineering cost base £m	(0.7)	(1.0)	(1.8)

- IP PBX install revenues were down 32% to £2.8m. These results were disappointing but reflect the market’s wider performance and macro economic pressures. There were some exceptional factors - the unusually harsh winter in the first quarter caused a reduction in installations (and revenue), and there was £0.4m increase in uncompleted jobs at the end of March 2010, much of which might otherwise have been included in revenues. There was clear evidence of sales cycles lengthening, and while pipeline has rarely been stronger than it is currently, the evidence is that businesses are deferring commitment to investment decisions until they can see a firmer economy, unless there is a much shorter payback. It seems also with a looming general election, the public sector deferred many decisions to the end of June 2010.
- During the period, the Group invested £0.2m in expanding its “Blue lights” team, focussing on emergency services and the health sector, and a specialist maintenance support sales team was established. To date these have each performed in line with expectations, and some significant contracts have been won with East Midlands Ambulance Services and the Group’s first London NHS Trust in Camden. These have centred around support services and offer potential for future larger sales opportunities.

- Maintenance revenues are steady year on year. The lower level of newer pbx hardware sold in the last twelve months resulted in lower new maintenance revenues. The underlying revenue base is stable year on year, and there have been some considerable improvements to the profile – e.g. In March 2009, 40% of these customers took one or more other product from the Group, this has increased to 45% at March 2010. And the number of maintenance customers who take 3 or more products has increased 22% to over 250. The average support revenue per customer is also up 11% to £3,500 per annum. The statistics confirm the cross selling success and a move to larger customers, which are key strands of our organic growth strategy.
- Data circuit revenues are unchanged year on year. An improved performance is masked by reductions on existing customers' revenues, as they trade up to cheaper newer technology, and by a lengthening in the sales cycle. At the end of March 2010, the annual revenues of orders awaiting connection had increased by £0.3m over the level of September 2009, due to greater sales of MPLS data networks which have longer connection timelines.
- Advanced Solutions margin performance has been strong, improving to 46% for the period. Even stripping out AKJ, margins have increased from 41.1% to 43.6%, a 2.5% increase. This has been achieved as follows:
 - Change in sales mix with less IP-PBX sales – increase in margin of 0.8%
 - Reduction in engineering costs – increase in margin of 3.2%
 - Increase in outsourced maintenance costs – reduction in margin of 1.5%

AKJ

The acquisition of AKJ at the end of October 2009 was covered in last year's annual report. This first 5 month period of trading has been very encouraging, although it has a modest impact on overall Group results.

In the period, AKJ won seven new customers adding annualised revenues of £0.2m, bolstering its strong market position in the reseller billing services market. AKJ lost just one client during the period due to consolidation by a competitor. In addition, AKJ has already renewed existing contracts with annualised revenues of £0.7m in the first 5 months.

Sales in the period were £1.4m, producing EBITDA of over £0.3m. On an annualised proforma basis, this would produce EBITDA of over £0.7m, compared with £0.58m underlying EBITDA in the 12 months to 31 July 2009.

The company is currently working on several development streams to enhance other Group products, and has made good progress on billing platform improvements to date.

Organic Growth

We have continued to focus successfully on areas which we believe are key for continued organic growth:

Focus on larger customers in SME space

We continue to target the mid enterprise market, particularly those customers with multi-sites and employees ranging from 80 to 1000.

In the six months since 30 September 2009, there has been a net increase of 30 customers with recurring revenues of more than £1,000 per month, with the number of higher spending business customers who take more than 3 products from the group increasing to 738 representing 58% of the larger client base (H1 2009: 55%). Key customers gained include Synergy Health plc, where AN provided mobile and fixed line products with Clarity Reporting, and the Huntress Group, with AN supplying a converged offering of systems hardware, and MPLS data network, with mobile and fixed telecom services, provided on a cross-subsidised multi-product deal.

The success of cross selling products into our existing smaller customers so that smaller customers become larger ones can also be measured as below.

Cross-selling of products

A key part of our organic growth strategy remains to sell more products to new and existing customers. During the period we have had further success substantially increasing the product penetration in our customer base. The number of customers taking more than one product is 43% (up from 39% in March 2009). This has been helped by the number of multi-product new customers. Not surprisingly, in the larger customer base (i.e. those spending > £1,000) we have seen a continued increase in product penetration,

with the number of large customers buying more than one product up to 77% (73% in March 2009, 75% September 2009).

Reduction in churn

The group has continued to experience low churn levels across all products (mobile churn is covered separately above). Corporate failure or insolvency continues to play a larger part in customer churn. In the six months to 31 March 2010, there were 32 such failures in our client base, compared to 50 in the previous six months and 35 in the six months to 31 March 2009. These are mostly small customers, with the average debt per failed customer being less than £2,000, prior to insurance recovery. We anticipate the corporate failure rate will continue at a high level for some time after the economy has moved out of recession, and the Group is pleased by the lower rate in this period as a result of tight credit control.

Product development

The group continues to expand its product range to enable taking a wider share of its customers spend on communications and enabling a wider range of products with which to engage new customers.

During this period, new products included:

Mobile:

- Handsets - key innovations included the new BlackBerry Bold 9700 and the several new handsets from HTC running Google's Android operating system;
- BlackBerry Enterprise Server (BES) Express – this is a cheaper version of the full BES which features some reduced functionality, but retains the level of security. The opportunities are three-fold: to push BlackBerry deeper and wider into existing accounts; to cross-sell corporate mobile email to new verticals; and to add value to the standard BES Express offering using our managed installations and premium support package, BlackBerry Advantage.

IP and PBX products : “MCD 4.1” from Mitel: this product is a further step towards true convergence as it manages communications across multiple devices, giving customers the ability to load the 3300 IP PBX software on an industry standard server, and remove the need for the branded ‘box on the wall’.

Client services:

- Clarity - improvements to AN's unique reporting service giving cost-centre functionality, and improvements to Personal Call Reporting, which allows for automated management of work and personal calls and associated tax management.
- A new automated mobile hardware ordering system, connected directly to distributor systems.

The next 6 months offers further opportunities for new products to take a hold in the market. These include:

Mobile: the new 3G Blackberry Pearl, Windows Mobile 7, and Symbian 3 on Nokia handsets.

IP and PBX products: SIP trunking, and for IP BPX systems, the ability to load the software on a VM Ware virtualised server environment. A focus will be on delivering Corporate wi-fi networks. All three of these will further advance converged technology solutions, with fixed and mobile devices operating on a dedicated or hosted platform.

Client services: AKJ are working on a number of new client offerings:

- Advanced reporting – sophisticated trend reporting, and advanced inbound call reporting
- On line ordering – enabling customers to order/amend services direct with the networks.
- Portal –Our vision is a single point of reporting, ordering, assurance and asset management, as well as giving us a platform to provide our clients with Software as a Service. Initial work has commenced on delivering the platform and on on-line customer services for fault reporting, expected in 2010.

Growth by Acquisition

The Group continues to target earnings enhancing acquisitions and is in discussions with a number of companies which operate in the telephone and data networks market, and meet our strict criteria of businesses which are growing, profitable, and expected to be earnings enhancing in the first year of acquisition. The Board is hopeful that at least one of these discussions will shortly yield a successful addition to the Group. Political change and economic uncertainty is expected to proffer up more opportunities in owner-managed independent businesses, and the group is well placed to take advantage of those opportunities as they arise.

Outlook

The Board expects current market conditions to continue for the next six months. However, the performance in the first six months gives encouragement for further gains in market share and acquisition prospects remain exciting. The business continues to generate excellent returns and our cash generation and strong balance sheet are expected to provide us with leverage as opportunities arise. We have a strong and reliable engine for organic growth and consider the business to be extremely well placed, holding the key to converged communications in the SME market.

James Murray
Edward Spurrier

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months to 31 March 2010 £'000	Six months to 31 March 2009 £'000	Year to 30 September 2009 £'000
	Notes			
Turnover:		47,114	45,591	89,676
Cost of sales		(30,075)	(29,642)	(58,295)
Gross profit		17,039	15,949	31,381
Operating costs		(12,503)	(12,558)	(24,350)
Operating profit:		4,536	3,391	7,031
Total operating profit – analysed:				
Operating profit before share based payments and amortisation of intangible assets	5	5,685	4,314	8,986
Share based payments		(455)	(270)	(565)
Amortisation of purchased customer contracts and other intangibles (excluding computer software)	7	(694)	(653)	(1,220)
Exceptional impairment of property		-	-	(170)
Total operating profit		4,536	3,391	7,031
Finance income		54	60	105
Finance costs		(9)	(15)	(21)
Profit on ordinary activities before taxation		4,581	3,436	7,115
Taxation on profit on ordinary activities	6	(1,214)	(972)	(2,024)
Profit on ordinary activities after taxation and total comprehensive income for the period		3,367	2,464	5,091
Attributable to:-				
Equity shareholders of the company		3,367	2,464	5,091
		3,367	2,464	5,091
Earnings per ordinary share:				
Basic	4	8.0p	5.8p	12.0p
Diluted	4	7.5p	5.4p	11.3p

UNAUDITED CONSOLIDATED BALANCE SHEETS

	Notes	Six months to 31 March 2010 £'000	Six months to 31 March 2009 £'000	Year to 30 September 2009 £'000
ASSETS				
Non-current assets				
Intangible assets	7	21,985	18,413	17,755
Tangible assets		1,920	2,995	2,708
Deferred tax asset		855	388	428
Property deposits		2	13	14
		24,762	21,809	20,905
Current assets				
Inventories		190	246	168
Trade and other receivables		14,587	13,446	12,535
Cash and cash equivalents	9	10,324	6,464	9,015
		25,101	20,156	21,718
Total assets		49,863	41,965	42,623
EQUITY AND LIABILITIES				
Equity				
Called up share capital		59	56	56
Share premium		4,900	4,848	4,855
Capital redemption reserve		4	3	4
Merger reserve		2,704	1,905	1,905
Treasury shares held		(1,422)	(1,422)	(1,422)
Retained earnings		18,510	15,070	16,607
		24,755	20,460	22,005
Current liabilities				
Borrowings	9	78	69	50
Deferred consideration		563	-	-
Trade and other payables		22,171	19,341	18,604
		22,812	19,410	18,654
Non-current liabilities				
Borrowings	9	872	894	874
Deferred tax liabilities		1,424	1,201	1,090
		2,296	2,095	1,964
Total liabilities		25,108	21,505	20,618
Total equity and liabilities		49,863	41,965	42,623

UNAUDITED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Shares held in treasury £'000	Profit and loss £'000	Total Equity £'000
Balance at 01-Oct-08	57	4,721	3	1,905	(1,422)	14,791	20,055
Shares issued	-	127	-	-	-	-	127
IFRS2 share based payments	-	-	-	-	-	270	270
Share buy-back	(1)	-	-	-	-	(706)	(707)
Deferred tax on share options	-	-	-	-	-	(366)	(366)
Comprehensive profit for the period	-	-	-	-	-	2,464	2,464
Dividends paid	-	-	-	-	-	(1,383)	(1,383)
Balance at 31-Mar-09	56	4,848	3	1,905	(1,422)	15,070	20,460
Shares issued	-	7	-	-	-	-	7
IFRS2 share based payments	-	-	-	-	-	295	295
Share buy-back	-	-	1	-	-	(650)	(649)
Deferred tax on share options	-	-	-	-	-	(30)	(30)
Comprehensive profit for the period	-	-	-	-	-	2,627	2,627
Dividends paid	-	-	-	-	-	(705)	(705)
Balance at 30-Sep-09	56	4,855	4	1,905	(1,422)	16,607	22,005
Shares issued	3	45	-	799	-	-	847
IFRS2 share based payments	-	-	-	-	-	288	288
Share buy-back	-	-	-	-	-	(359)	(359)
Deferred tax on share options	-	-	-	-	-	159	159
Comprehensive profit for the period	-	-	-	-	-	3,367	3,367
Dividends paid	-	-	-	-	-	(1,552)	(1,552)
Balance at 31-Mar-10	59	4,900	4	2,704	(1,422)	18,510	24,755

UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Six months to 31 March 2010 £'000	Six months to 31 March 2009 £'000	Year ended 30 September 2009 £'000
Cash flows from operating activities				
Cash generated from operations	8	7,610	5,321	10,605
Income tax paid		(1,224)	(1,160)	(2,458)
Interest paid		(9)	(15)	(21)
Net cash from operating activities		6,377	4,146	8,126
<i>Cash flows from investing activities;-</i>				
Purchases of property, plant and equipment		(47)	(233)	(342)
Proceeds from sale of property, plant and equipment		719	15	45
Interest received		53	60	98
Cash acquired with acquisitions		77	-	-
Purchase of subsidiary undertaking		(3,778)	245	(58)
Proceeds from vendors under sale and purchase agreements		-	-	300
Net cash (used in)/from investing activities		(2,976)	87	43
<i>Cash flows from financing activities;-</i>				
Dividends paid	3	(1,552)	(1,383)	(2,088)
Proceeds from issue of share capital		50	127	134
Payments made for share buy-backs		(359)	(707)	(1,356)
Capital element of loan repayments		(231)	(33)	(71)
Net cash used in financing activities		(2,092)	(1,996)	(3,381)
Increase in cash and cash equivalents		1,309	2,237	4,788
Cash and cash equivalents at start of period		9,015	4,227	4,227
Cash and cash equivalents at end of period		10,324	6,464	9,015

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial information contained in this interim statement does not constitute accounts as defined by section 434 of the Companies Act 2006. The interim report has been neither audited nor reviewed by the Group's auditors. The financial information for the year ended 30 September 2009 is derived from the statutory accounts for that period that have been delivered to the Registrar and included an audit report, which was unqualified and did not contain any statement under section 498 of the Companies Act 2006.

Alternative Networks plc's consolidated financial statements and these interim financial statements have been prepared in accordance with IFRS and International Accounting Standards (IAS) as adopted by the European Union (EU). The accounting policies applied are consistent with those described in the Annual Report and Financial Statements 2009 except as described below. The Interim Report has been prepared in accordance with IAS 34 'Interim Financial Reporting' and should be read in conjunction with the Annual Report and Financial Statements 2009.

Fixed annual charges are apportioned to the interim period on the basis of time elapsed provided that a contractual or constructive obligation exists at the interim balance sheet date. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts, as modified by the introduction of new accounting standards.

The Group has adopted the following new standards and interpretations for the accounting period commencing 1 October 2009.

IAS 1 (Revised) 'Presentation of Financial Statements' requires that the Group presents either one performance statement – 'Statement of Comprehensive Income'; or two statements – 'Income Statement' and 'Statement of Comprehensive Income'. The Group has elected to present one statement: the statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

IFRS 8 'Operating segments' (effective from 1 January 2009) uses a "management approach" under which segmental information is presented on the basis as that used for internal reporting purposes. Further details regarding the adoption of this standard and new disclosures required are set out in Note 11.

IFRS 3 (revised) 'Business Combinations' requires that all costs associated with business combinations are expensed directly to the income statement. Additionally any changes to contingent consideration must now be dealt with through the income statement subsequent to acquisition.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements'. This standard has not had a material impact on the Group.

The following standard and interpretations have been issued but are not effective for the accounting period commencing 1 October 2009 and have not been adopted early by the Group.

IFRS 9 Financial Instruments (1 January 2013)

IAS 32 amendment Presentation on classification of rights issue (1 February 2010)

IAS 24 amendment Related Party Disclosures (1 January 2011)

IFRIC 15 Agreements for the Construction of Real Estate (1 January 2010)

IFRIC 18 Transfers of Assets from Customers (31 October 2009)

IFRIC 19 Extinguishing Financial liabilities with Equity Instruments (1 January 2010)

IFRIC 14 amendment, Prepayments on a Minimum Funding Requirement (1 January 2011)

The interim results were approved by the Board on 27 May 2010.

2. Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2009, as described in those annual financial statements. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. Dividends

The reported dividend in these statements represents the 2009 proposed final dividend of 3.50 pence per £0.00125p ordinary share, which was paid on 26 January 2010 (2009: represents the 2008 proposed and paid final dividend of 3.10 pence per £0.00125p ordinary share). The amount of dividend paid was £1,552,000 (2008: £1,383,000).

The directors proposed a dividend for the 2010 interims of 2.0 pence per £0.00125p ordinary share (2009: 1.6 pence per share), with a total payment value of £888,000 (2009: £730,000). This was approved on 9 March 2010, and has not been accrued in the financial statements. This was paid on 1 April 2010 to shareholders on the register on 19 March 2010. The ex-dividend date is 17 March 2010.

The directors proposed a second interim dividend for the 2010 interims of 3.0 pence per £0.00125p ordinary share (2009: nil pence per share), with a total payment value of £1,331,000 (2009: £nil). This was approved on 9 March 2010, and has not been accrued in the financial statements. This was paid on 1 April 2010 to shareholders on the register on 19 March 2010. The ex-dividend date is 17 March 2010.

4. Earnings per share

The calculation of basic and fully diluted earnings per ordinary share is based on profit attributable to equity holders of the Company divided by the weighted average numbers of ordinary shares in issue during the year.

For fully diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of potential ordinary shares: those share options granted to employees where the exercise price is less than the average price of the company's ordinary share during year.

The profit and weighted average number of shares used in the calculations are set out below:

	Profit attributable to shareholders £'000	Weighted average of 0.125p ordinary shares Number	Per share amount Pence
For the 6 Months to March 2010			
Earnings per shares - basic	3,367	42,327,346	8.0
Potential dilutive shares	-	2,330,401	(0.5)
Earnings per shares - diluted	3,367	44,657,748	7.5
For the 6 Months to March 2009			
Earnings per shares - basic	2,464	42,724,697	5.8
Potential dilutive shares	-	2,497,968	(0.4)
Earnings per shares - diluted	2,464	45,222,665	5.4
For the year to September 2009			
Earnings per shares - basic	5,091	42,541,495	12.0
Potential dilutive shares	-	2,493,341	(0.7)
Earnings per shares - diluted	5,091	45,034,836	11.3

The adjusted EPS is based on the adjusted profit before tax set out in Note 5, and the weighted average number of shares as described above.

	Profit attributable to shareholders £'000	Weighted average of 0.125p ordinary shares Number	Per share amount Pence
For the 6 Months to March 2010			
Earnings per shares - basic	3,625	42,327,346	8.6
Potential dilutive shares	-	2,330,401	(0.5)
Earnings per shares - diluted	3,625	44,657,748	8.1
For the 6 Months to March 2009			
Earnings per shares - basic	2,908	42,724,697	6.8
Potential dilutive shares	-	2,497,968	(0.4)
Earnings per shares - diluted	2,908	45,222,665	6.4
For the year to September 2009			
Earnings per shares - basic	6,113	42,541,495	14.4
Potential dilutive shares	-	2,493,341	(0.8)
Earnings per shares - diluted	6,113	45,034,836	13.6

As in prior periods, the calculation of the weighted average number of shares in issue excludes the shares held by Alternative Networks Employee Benefit Trust (EBT). The EBT held 1,915,200 shares until 31 March 2010 when this number increased to 3,915,200.

There were 48,008,491 shares in issue at 31 March 2010 including 1,000,000 shares held in treasury. On 31 March 2009 there were 45,595,457 shares. The weighted average number of shares during the six months to March 2010 was 42,327,346 (2009: 42,724,697).

The potential dilutive shares for the year to 30 September 2009 have been restated to take into account the LTIP shares which are now known to be exercisable, although they were considered unlikely to exercise at the relevant date. This has the impact of reducing the previously reported diluted earnings by 0.3 pence in this period.

5. Reconciliation to adjusted performance

Reconciliation of adjusted EBITDA	31 March 2010 £'000	31 March 2009 £'000	30 September 2009 £'000
Profit before tax	4,581	3,436	7,115
Adjustments			
Amortisation of purchased customer contracts and other intangibles (excluding computer software)	694	653	1,220
Share based payments	455	270	565
Add back impairment of freehold property	-	-	170
Adjusted profit before tax	5,730	4,359	9,070
Finance income	(54)	(60)	(105)
Finance costs	9	15	21
Adjusted operating profit	5,685	4,314	8,986
Add: Depreciation of property, plant and equipment	157	195	375
Add: Amortisation of software (intangibles)	152	145	281
Adjusted EBITDA	5,994	4,654	9,642

Reconciliation of adjusted profits for earnings per share	31 March 2010 £'000	31 March 2009 £'000	30 September 2009 £'000
Adjusted profit before tax (see above)	5,730	4,359	9,070
Less: Share based payments	(455)	(270)	(565)
Less: Taxation per profit and loss accounts	(1,214)	(972)	(2,024)
Less: Taxation on amortisation of purchased customer contracts and other intangibles (excluding computer software)	(184)	(183)	(342)
Less: Exceptional deduction on exercise of AN share options	(252)	(26)	(26)
Adjusted profit after tax	3,625	2,908	6,113

Adjusted earnings per share is calculated on adjusted earnings after deduction of share option costs.

This analysis is provided as the Group considers it provides a truer reflection of the underlying performance of the business, and is common practice in the investment analyst community.

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full year. The estimated average annual tax rate used for the year to 30 September 2010 is 26.5% (the estimated tax rate for the first half to 31 March 2009 was 28.3%). This reduction is due to an expected schedule 23 deduction in respect of share options exercised and a claim for allowable research and development expenditure.

The standard rate of tax in the comparative period was 28%.

7. Intangible fixed assets

	Purchased customer contracts £'000	Computer software £'000	Other intangibles £'000	Goodwill £'000	Total £'000
Cost					
At 1 October 2009	1,662	1,667	5,865	12,635	21,829
Additions	-	5	-	-	5
Acquisitions	-	9	1,752	3,304	5,065
At 31 March 2010	1,662	1,681	7,617	15,939	26,899
Amortisation					
At 1 October 2009	1,133	939	2,002	-	4,074
Acquisitions	-	5	-	-	5
Charge for period	135	141	559	-	835
At 31 March 2010	1,268	1,085	2,561	-	4,914
Net book amount					
At 31 March 2010	394	596	5,056	15,939	21,985
At 30 September 2009	529	728	3,863	12,635	17,755

Other intangibles arising on acquisition are being amortised on a straight-line basis over 3 to 7 years which is the anticipated life of the assets. Purchased customer contracts are amortised over 3 to 5 years.

8. Cash generated from operations

	Six months to 31 March 2010 £'000	Six months to 31 March 2009 £'000	Year ended 30 September 2009 £'000
Operating profit	4,536	3,391	7,031
Adjustments for:-			
Depreciation of tangible fixed assets	188	193	545
Amortisation of intangible assets	835	800	1,501
Employee share scheme charges	288	270	565
Profit on sale of fixed assets	(9)	(15)	(44)
Movements in working capital:-			
Decrease in property deposits	12	1	-
(Increase) / Decrease in inventories	(22)	136	214
(Increase) / Decrease in trade debtors	(817)	655	498
(Increase) / Decrease in other debtors and prepayments	(561)	348	1,417
Increase/ (decrease) in trade creditors	1,146	47	(661)
Increase/ (decrease) in other tax and social security creditors	1,095	(456)	(543)
Increase/ (decrease) in other creditors and accruals	919	(49)	82
Cash generated from operations	7,610	5,321	10,605

9. Analysis of movement of net funds

	As at 1 October 2009 £'000	Cash flow £'000	As at 31 March 2010 £'000
Net Cash:			
Cash at bank and in hand	9,015	1,309	10,324
<hr/>			
Debt			
Debt due within one year	(50)	(29)	(78)
Debt due after one year	(874)	2	(872)
Total debt	(924)	(27)	(950)
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	8,091	1,282	9,374
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10. Acquisition of Aurora Kendrick James Limited

On 30 October 2009 the Group acquired 100% of the ordinary shares of Aurora Kendrick James Limited (AKJ) and obtained control of the Company. AKJ is a provider of software and consultancy specialising in the telecommunications industry. As a result of the acquisition, the Group expects to be provided with a platform for potential new revenue streams and to reduce costs through increased group purchasing power.

The revenue included in the consolidated statement of comprehensive income since 30 October 2009 contributed by AKJ was £1,435,000. AKJ also contributed profit of £217,000 over the same period. The following unaudited pro forma summary presents consolidated information of the Group as if the business combination had occurred on 1 October 2009.

Pro forma six month ended 31 March 2010	Group £'000
Revenue	47,401
Profit on ordinary activities after taxation	3,410

These amounts have been calculated after applying the group's accounting policies and adjusting the results of AKJ to reflect the additional depreciation that would have been charged assuming the fair value adjustments to tangible fixed assets had been applied from 1 October 2009, together with the consequential tax effects.

The following tables summarise the consideration transferred to acquire AKJ and the amounts of identified assets acquired and liabilities assumed at the acquisition date.

Fair value of consideration transferred

At 30 October 2009	£'000
Cash	3,750
Equity instruments (707,076 ordinary shares of Alternative Networks plc)	800
Contingent consideration arrangement (cash)	563
Expenses	28
Total consideration transferred	<u>5,141</u>

Recognised amounts of identifiable assets acquired and liabilities assumed

At 30 October 2009	£'000
Cash and cash equivalents	77
Trade and other receivables	674
Brands (included in intangibles)	178
Contractual customer relationships (included in intangibles)	567
Technology (included in intangibles)	1,007
Software licences (included in intangibles)	4
Property, plant and equipment	67
Trade and other payables	(302)
Borrowings	(258)
Deferred tax liabilities	<u>(177)</u>
Total identifiable net assets	<u>1,837</u>
Goodwill	<u>3,304</u>
	<u>5,141</u>

The fair value of the 707,076 ordinary shares issued as part of the consideration paid for AKJ was determined on the basis of the closing market price of Alternative Networks ordinary shares on the acquisition date (30 October 2009).

The contingent consideration arrangement requires the Group to pay the former owners of AKJ dependent on the growth in AKJ's recurring revenue for the twelve month period ending 31 October 2010. A maximum undiscounted amount of £950,000 (£750,000 cash and £200,000 shares) is to be paid if revenue growth has increased by 10% or greater in the twelve months to 31 October 2010. The potential undiscounted amount of all future payments that ANP could be required to make under the contingent consideration arrangement is between £nil and £950,000.

The fair value of the contingent consideration arrangement of £563,000 (£563,000 cash and £nil shares) was estimated based by comparing actual results versus expected results to date. No discounting was carried out as this does not materially affect the value.

As of 31 March 2010, there were no changes in the recognised amounts or range of outcomes for the contingent consideration recognised as a result of the acquisition of AKJ.

The fair value of trade and other receivables is £674,000 and includes trade receivables with a fair value of £565,000. The gross contractual amount for trade receivables due is £565,000, of which £nil is expected to be uncollectable.

The residual goodwill of £3,304,000 arising from the acquisition consists largely of the workforce of the acquired business and the significant synergies and economies of scale expected from combining the operations of the Group and AKJ.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group incurred £20,000 of third-party costs related to this acquisition. These expenses are included in general and administrative expense in the company's consolidated statement of

comprehensive income for the period ended 31st March 2010. Expenses of £28,000 relating to stamp duty have been capitalised, but following changes in accounting standards, these will now have to be expensed in the full year accounts.

11. Segmental Reporting

The chief operating decision-maker has been identified as the Board. The Board considers there are two operating and reporting segments, Network Services and Advanced Solutions. The Board assesses the performance of the operating segments based on revenue and adjusted operating profit.

	Network Services £'000	Advanced Solutions £'000	Total £'000
6 Months ending 31 March 2010			
Segment revenue	39,549	7,565	47,114
Segment adjusted operating profit	5,485	200	5,685
6 Months ending 31 March 2009			
Segment revenue	38,169	7,422	45,591
Segment adjusted operating profit	4,012	302	4,314
Year ending 30 September 2009			
Segment revenue	75,390	14,286	89,676
Segment adjusted operating profit	8,252	734	8,986

Adjusted operating profit is profit before amortisation of purchased customer contracts and other intangibles (excluding software), share-based payments, impairment of freehold property, finance income and finance costs. A reconciliation of profit before tax to adjusted operating profit is shown in note 5.