

Alternative Networks plc

Interim Results for the six months to 31 March 2009

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 2009.

Unaudited six months to 31 March	2009	2008	Change
	£000	£000	%

Underlying performance*

Turnover	45,591	46,094	-1%
Operating profit	4,314	5,029	-14%
Profit before taxation	4,359	5,074	-14%
Earnings per share - basic	7.3p	7.8p	-6%
- diluted	6.9p	7.6p	-9%

Statutory performance

Turnover	45,591	46,094	-1%
EBITDA	4,383	5,242	-16%
Operating profit	3,391	4,268	-21%
Profit before taxation	3,436	4,313	-20%
Net cash inflow from operations	5,321	5,495	-3%
Proposed dividend per share **	1.6p	1.5p	7%
Earnings per share - basic	5.8p	6.7p	-13%
- diluted	5.4p	6.4p	-16%

* Results before amortisation on intangible assets acquired and share based payments.

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

Operational highlights

- Sales down 1% to £45.6m (H1 2008: £46.1m)
- Market share gains:
 - Mobile subscriber base increased 11% to 54,278 (H1 2008: 49,049),
 - Fixed Line customer estate increased 23% to 55,780 (H1 2008: 45,397)
- Adjusted operating profits down 14% to £4.3m (H1 2008: £5.0m)
- Operating cash flow remains strong at £5.3m (H1 2008: £5.5m) and with a cash conversion ratio of 121% (H1 2008: 105%)
- Recurring annualised cost reductions of £2.4m effected, including a headcount reduction of 50

Corporate Highlights

- Proposed interim dividend increased 7% to 1.6p (2008: 1.5p)
- Share buy backs undertaken in the period with £0.7m returned to shareholders since 30 September 2008
- Echo acquisition: earn out completed and a net refund to the Group of £0.2m achieved
- O2 Service provider licence renewed to 31 July 2011

James Murray, Chief Executive Officer, commented:

“Results for the first half were broadly stable, with the business proving its resilience in the face of an increasingly tough economic environment where average spend per customer was under pressure. Against this challenging economic backdrop we have taken the requisite actions to tighten our cost base further. It was pleasing to see the business continuing to gain market share with both mobile subscribers and network services fixed line customer numbers up in the period. We have also continued to drive for increased cross-selling of products to customers, with 39% of customers now purchasing more than one product. Our balance sheet remains strong and EBITDA cash conversion was excellent at 121% in the period. Looking ahead, and taking into account the operational strength of the business, Alternative Networks is well positioned for organic growth and is also well placed to take advantage of the consolidation opportunities and pursue earnings enhancing acquisitions.”

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Chairman's Statement

I am pleased to report a stable set of interim results from a resilient business in a tough market.

The Group has continued to trade profitably, and gained market share by increasing the business users of its products and has generated £4.2m free cash flow, ahead of £4.1m generated in the comparative period last year.

It has been a challenging period for the Group, as the UK economy has deteriorated rapidly and business to business service providers have struggled to maintain growth, particularly in the second quarter. In April 2009, we announced the Group's revenues were running a little behind the Board's expectations, and this is likely to entail a lower profit for the year than originally forecast by the Board in Summer 2008. This is because in the shorter term, we expect this period of economic uncertainty to continue with call revenues staying at a relatively depressed level.

We have responded promptly to these adverse market conditions and have adjusted our cost base to reflect a more challenging market. Regrettably this has involved some redundancies in the Group, and I would like to thank all the employees for their exceptionally positive and professional outlook through these difficult times.

The Group remains in good shape operationally with growing net cash balances and the prospects of further mid to longer term growth, through organic means or acquisition look sound. The Group continues to win more larger customers and has been successful this period in maintaining low levels of customer attrition, whilst at the same time seeing a continuing improvement in cross selling products into existing customers.

The Board has decided to maintain the same aggregate monetary interim dividend as last year, which means a rise to 1.6 pence per share from 1.5 pence, due to the beneficial impact of the shares which were repurchased and cancelled within the last 12 months.

With the support of a strong and experienced management team, we remain confident and committed to our strategy of growth through provision of converged technology services to businesses in the UK.

Kenneth McGeorge
Non-executive Chairman

Business Review

This has been a challenging period of trading for the Group, as average revenues of business customers have come under pressure as the economy has slowed. Due to the speed and depth of the slow down particularly in December through to February 2009, the impact of a reduction in customer spend has more than outweighed both the impact of new customer wins and the cost cutting initiatives implemented in this period, but which have yet to filter through into the results. Accordingly, we are reporting revenues 1% down on last year and a reduction in adjusted operating profit of £0.7m. Cash generation continues to be strong and cash from operations was £5.3m, close to the record £5.5m delivered in the first half of H1 in 2008. Following the rapid deterioration of the economic environment, we have taken prompt management action to reduce costs which has involved a reduction in staff numbers. We remain confident these reductions will not hamper growth, as recent investment in the IT infrastructure and the final integration of Echo has delivered productivity gains. The Group finished the period with a strong balance sheet, recording gains in market share with a net increase in its network services and maintenance customer base, and is in good operational shape to take advantage of opportunities in these tough market conditions.

Results Overview

Total sales reduced 1% to £45.6m. Mobile sales were broadly flat at £21.2m, as ARPU declined 10% year on year, but was offset by the 11% growth in the net subscriber base. Fixed line revenues were overall down £0.3m to £17.0m, as minutes revenues continued to decline, although outbound WLR rentals increased 19% to £5.0m (H1 2008: £4.2m), reflecting the 23% increase in the customer lines/channels under management. Advance solutions sales were down £0.2m largely due to the £0.4m reduction in revenues from new system installations or enhancements. These were offset by small increases in data circuit revenues and maintenance revenues. More detail is provided on each product set below.

Gross Margins have performed in line with original expectations, but dipping slightly due to a change in the mix of call revenues (higher margin) to rental revenues (lower margins) in the second quarter. In the period gross margins were 34.4% compared to 34.8% in the second half of 2008 and 35.2% in the first half of 2008. Margins for the full year are expected to be closer to 34%, as the continued lower level of call revenues impact composite margins, and the expected effects of mobile data price caps due to EU regulation from 1 July 2009 are felt.

Adjusted operating profit has reduced 14% to £4.3m from £5.0m in 2008, due to £0.5m lower gross profits and £0.2m increased costs. The increased costs were due to a £0.5m increase in annual marketing spend which was previously announced in December 2008, and intended to bolster customer retention and increase market share. The adjusted operating profit is stated before non-cash intangible asset amortisation of £0.65m (H1 2008: £0.69m), and share option costs of £0.27m (H1 2008: £0.07m). Restructuring costs £0.07m (H1 2008: £0.05m) have been routinely expensed in administrative expenses.

Adjusted operating profit margins have reduced to 9.5% (H1 2008 10.9%), reflecting the lower gross margins and increased cost base. The announced cost savings of £2.4m are not reflected in these margins as the bulk of the contract negotiations and headcount reductions took place between February and May 2009.

Statutory profits before tax have reduced 20% from £4.3m to £3.4m.

Net funds and facilities

EBITDA cash conversion was excellent at 121% (H1 2008: 105%). For the six months to 31 March 2009, the group generated £5.3m of cash from operations (H1 2008: £5.5m). This was boosted by a net inflow of £0.6m from working capital, (H1 2008: £0.2m inflow), driven principally by the £0.6m reduction in trade debtors since September 2008.

Period end cash balances were £6.5m up from £4.2m at 30 September 2008. Net funds are £5.5m and the Group has not utilised its available banking facilities of £12m. These are renewable in January 2011.

Earnings per share

Underlying fully diluted earnings per share have reduced by 9% from 7.6p to 6.9p. The adjustments relate to amortisation of intangibles (acquired) and share based payments.

Basic earnings per share were 5.8p down from 6.7p. The weighted average shares in issue were reduced by 3m on the comparative period, due to 3.4 million shares repurchased in the last 12 months, and 0.2m shares issued in respect of share options exercised by staff.

Dividend

The Group proposes to pay an interim dividend of 1.6 pence per share (2007: 1.5 pence) on 17 July, to all shareholders on the register on 3 July 2009, representing an increase of 7%. Effectively, a similar pay out of £0.7m is being proposed by the Group as in 2008, but the benefits of the share buy backs are reflected in the uplift in the proposed dividend per share.

Cost reductions

The cost reductions initiated in February 2009 are part of an ongoing cost improvement programme. Initially, the savings were achieved through negotiations with existing suppliers and headcount reductions in the Advanced Solutions business as a result of the final integration of the sales and engineering functions, and a non replacement policy made possible by our investment in CRM and finance systems over the last three years. Since the period end, the Group initiated a process to make a further 15 to 20 positions redundant.

At the end of May 2009, headcount was 50 lower than at 30 September 2008, with 20 of these reductions being made before 31 March 2009. The headcount reduction was spread evenly across the group, with 40% in group administrative function, 30% was direct sales heads, and the remaining 30% was in distribution including engineering, and client management. The net reduction, although unfortunate, was necessary to ensure the Group can remain efficient in a period of declining revenues. It is expected the revised structure will adequately support the business for the next 12 months.

On 31 March 2009, the Board decided that Echo's former headquarters, previously held for resale would be partially brought back into use for storage and the upper floors of offices leased. To date we have had some interest at a discounted rent, and draft heads of terms have been issued. The Group now plans to minimise its holding costs and may potentially reconsider a sale at a later period, depending on the market. No revaluation has been made to date.

Share Buy Backs

Pursuant to the authority granted at an EGM on 24 July 2008, the Group announced on 18 August 2008 that it would commence a programme of share repurchases, limited to 4,771,162 ordinary shares. Between 16 and 20 October 2008, the Group repurchased 387,500 shares, each at 135p and subsequently cancelled them. In addition, on 11 February 2009, the Group repurchased 129,149 ordinary shares, each at 140p and they were subsequently cancelled. In total, £0.7m was returned to shareholders during the 6 months period to 31 March 2009 (2008: £NIL). The program is still running, and the Board will review the level of cash required for the business and determine if further repurchases remain in the Shareholders' best interests.

Echo earn out and warranty claims

On 24 January 2009, the Group finalised the deferred consideration due to the sellers of The Telecom Centre Limited ("Echo"), with a payment agreed at approximately £55,000. On 24 March 2009, the Group received £300,000 from the same sellers in respect of warranty claims. As a result of these two transactions, the cash flow statement shows a net receipt to the Group of £245,000 in respect of purchase of subsidiary undertakings. The net balance has been allocated against goodwill arising on consolidation in the balance sheet.

Review of business and KPIs by product divisions

Mobile

Mobile	2009 Group 6 months to 31 March	2008 Group 6 months to 31 March	2008 Group 12 months to 30 September
Turnover (£m)	21.2	21.3	43.6
Gross Profit (£m)	6.2	6.4	12.9
Gross Margin %	29.4%	30%	29.7%
Mobile KPIs			
Subscribers at period end	54,278	49,049	51,990
Monthly ARPU (£)	55	61	60
Monthly average contract length	22m	22m	22m
Gross new connections in period	8,521	8,786	18,465
Network churn	18%	12%	16%
AN £ churn	15%	16%	15%
% Subscribers in-contract	86%	81%	85%
Data connections (included in above)	18,741	14,435	17,362
Data connections as % of total subscribers	35%	29%	33%

- The subscriber base has increased 11% year on year, reflecting successful increases in market share, yet revenues are just under 1% lower than the comparative period at £21.2m. This is due to the ARPU reduction of nearly 10%, falling £6 from £61 in H1 2008 to £55 in this period. A detailed explanation of the drop is set out below:
 - Reduced roaming revenues for existing customers– these were £0.3m and 6% lower than the previous comparative 6 month period in 2008, accounting for £1 of the total ARPU reduction. In particular, roaming revenues in January and February 2009 were noticeably reduced. An analysis of roaming revenues shows that in the first quarter of the year they were ahead of the comparative period in 2008 by nearly 3%. However, second quarter revenues dropped to being 14% lower than the previous year's comparative period. Further analysis shows that roamers are on average spending broadly the same amount as in prior years, but that there were 11% less roamers in the second quarter. Presumably this is as a result of less business trips abroad by end users. The revenues for March and April were improved on the nadir of January and February, showing an increase of more than 10% on average over the previous two months.
 - Net increase in Zero billers- this accounted for nearly £2 of the ARPU drop. Zero billers are those subscribers which do not bill any traffic. These will include a) voice connections where they are not being used (i.e. put in a drawer, reflecting perhaps, redundancies, in our client base); and b) customers on bundled tariffs of either data or voice where the customer does not break out of the bundle.
 - Change in sales mix – over the year, the proportional growth in converged devices, growing from 18% of base to 22% of base, at the expense of voice-only connections as a % of the subscriber base, delivered an ARPU increase of approximately £1.50.
 - Reduction in UK spend for existing customers – this has had an impact of a reduction of approximately £4.50 in ARPU. Revenues have reduced for existing customers as a result of a) moving to newer cheaper bundled tariffs, which contain free calls b) Echo customers being renewed onto more market led tariffs, c) lower rates and lower usage from existing customers, and d) new customers being on lower ARPU than departing customers. For

example, in March 2009, new customers had an ARPU approximately 3% lower than churning customers.

- Business subscribers have increased to 54,278 representing a net gain of 2,288 (H1 2008: 3,329) over the 6 months from 30 September 2008. The lower growth to the previous year was due to disconnections by some downsizing clients, reflecting the sharp level of redundancies made by customers and a critical review by customers of their requirements, which is expected to taper over time. Overall growth in new connections remained strong, with gross new connections of 8,521 nearly matching the performance last year.
- Data connections have grown 30% over the year to 18,741 connections. The net increase of approximately 4,300 data connections is made up of 3,300 net new converged devices ("PDAs"), and 1,000 more data only devices ("Dongles"). Data connections now account for over a third of the subscriber base, and converged devices are over one fifth.
- Network churn levels have returned to the level last seen in H1 2007, being 18%. 2008 full year network churn was 16%. In 2009, the network churn has increased principally due to an increase of 500 in the number of connections being cancelled by continuing customers who are downsizing. Additionally, there has been an increase of 500 connections disconnected due to customers transferring from one network to another but remaining with Alternative Networks. Together these account for 4% of the 18% churn. The level of customer attrition, where the Group has lost the customer, has remained low, as also evidenced by the AN £ churn statistic which measures the loss of revenue by leaving customers, and which has reduced from 16% in H1 2008 to 15% in this period. The number of customers in contract at the end of March 2009 has increased to a record 86%, as an increasing number of clients commit to typically 2 year term contracts in return for better commercial terms.
- As forecast at last year's interims, gross margins have come down to the lower end of the 29-31% range they have occupied for the last three years, reflecting the more competitive nature of the UK mobile industry. In the 6 months to 31 March 2009, £0.3m less funding was received from O2 and Vodafone compared to the previous year in respect of retaining customers, whilst the overall costs of hardware and kit funds for renewing contracts with these customers was maintained at a similar level as the prior year. If that £0.3m extra funding had been maintained or if the Group could have signed new contracts with less hardware costs, and still maintained the same prices for the customers, the margins would have been higher at 30.2% and in line with last year. Encouragingly, margins from ongoing calls and line rentals have not fallen from last year's levels in spite of lower ARPU, and the Group remains focussed on maximising margins from its existing customer base.

Network Services

Network Services	2009 Group 6 months to 31 March	2008 Group 6 months to 31 March	2008 Group 12 months to 30 September
Turnover (£m)	17.0	17.2	34.9
Gross Profit (£m)	6.7	7.0	14.4
Gross Margin %	39%	41%	41%
Outbound KPIs			
Monthly ARPU (£)	1,062	1,082	1,101
WLR as a % of total Network Services revenues	38%	31%	32%
Number of lines/channels	55,780	45,397	52,262
Average new customer contract length (months = "m")	19 m	17m	16 m
Inbound KPIs			
Turnover (£m)	3.6	3.5	7.1
Gross margin %	57%	57%	58%

- Sales are down 1% on 2008. As in prior periods, the decline in call revenues continues to overshadow the increased momentum in customer wins as is illustrated by the increased WLR base size.
- In Outbound sales, revenues have declined by £0.3m from £13.7m in 2008 to £13.4m in this period. The reduction is due to call revenues which have declined from £9.3m in H1 2008 to £8.2m in this period. The reduction in call revenues is largely a function of lower usage, partly due to the economic deterioration and partly due to changes in technology and the ascendancy of mobile in the workspace. A review of average revenue by minute by call destination reveals a modest drop in pence per minute revenues from calls to UK mobile, mainly due to regulatory changes but otherwise prices are relatively stable. Conversely, revenues from line rentals have grown from £4.2m in H1 2008 to £5.0m in this period
- Outbound Wholesale Line rental (WLR) continued to grow with an increase of 3,518 lines since 30 September 2008, and an annual organic growth in the base size of 23%. Revenues from WLR grew 19%, with the overall Group revenues growing to £5.0m. The number of ISDN30 channels (used by the larger customers) grew 25% and now accounts for 54% of the total estate.
- Outbound average revenue per customer per month ('ARPU') is holding fairly steady, with continued cross selling of WLR and the addition of larger customers to the base offsetting the impact of lower usage across the entire customer base. Major customer wins in the period included Blockbuster Entertainment and the University of Hull.
- Inbound revenues – growth has slowed to 3% year on year, largely due to lower activity levels from existing customers. Margins remain steady to date. Current expectation for the Ofcom led 0870 migration for clients is now August 2009 and is expected to have a modest margin eroding impact.
- Gross margins in outbound revenues have fallen 1.6% points year on year to 35%. There were two principal reasons for the fall:
 - Change in sales mix - less higher margin call minutes accounting for approximately 1.4% margin point reduction;
 - Reduced BT commissions for MPLS circuits: Echo used to receive commissions from BT, which were discontinued in late 2008. The gross profits and revenues in 2008 benefited from an additional £40,000 at 100% margin. As anticipated, this accounted for 0.2% margin reduction.

Otherwise margins have held firm with price reductions to customers being offset by reduced buying costs.

Advanced Solutions

Advanced solutions	2009 Group 6 months to 31 March	2008 Group 6 months to 31 March	2008 Group 12 months to 30 September
Turnover (£m)	7.4	7.6	15.2
Gross Profit (£m)	2.8	2.8	5.50
Gross Margin %	38%	37%	36%
Sales Analysis			
IP PBX Installs (£m)	4.1	4.5	8.8
IP PBX Support ('Maintenance') (£m)	2.3	2.2	4.4
Data circuit rentals (£m)	1.0	0.9	2.0
IP PBX Support gross profit (£m)	2.2	2.1	4.2
Engineering cost base £m	(1.3)	(1.3)	(2.5)

- IP PBX install revenues were down £0.3m year on year, as expected. This was a good performance relative to the market. The larger installations (over £0.1m) have had extended sales cycles with some delays in converting signed orders into installed business, e.g. one customer defaulted on a £0.3m multi site system order in the period, as the client was unable to source the necessary funding. Sales of enhancements ("add-ons") to existing customers' systems have reduced by over 25% year-on-year as many enterprises cut out upgrades to their systems and are reducing system requirements rather than adding to them. However, the impact of this has been substantially reduced by improved sales of smaller IP based systems (less than £0.1m) which have been ahead of expectations, with many of these vendor-financed or purchased for cash, justified by a rapid payback in terms of cheaper telecoms spend across many sites. Major customer installations included ATP, The Advanced Travel Partner, which involved a multi product deal, with the systems element being an Avaya call centre system across six sites.
- Maintenance revenues have increased 5%. However, since March 2008, there has been the loss of two of the largest Echo customers, which were serving out their final year's notice, at the time of the acquisition. These billed an extra £0.12m in the period to 31 March 2008. If treating these customer losses as exceptional, maintenance revenues would have grown 11% year on year. The outlook for maintenance revenues, which continue to be a key focus for management, remains mixed. There are plenty of opportunities to win market share with some competitors focussed on other aspects of their business. However, there is continued pressure on renewal pricing and with customers continuing to close sites, churn is tracking slightly ahead of original management expectations, albeit still at a low level.
- Data circuit revenues have increased 11%. A range of managed services were provided for new customers, including MPLS, Ethernet, and ADSL being sourced from a range of suppliers, including principally in this period, Viatel and Easynet. This remains an area of obvious potential growth to the business.
- Margins have improved to 38%. This is mainly due to the change in sales mix and lower level of large system installs which tend to have a smaller margin. Recent reduced headcount in the engineering and technical support departments have had minimal impact in this period, but will bolster margins and help offset reduced margins implicit in lower maintenance renewals.

Organic Growth

We have continued to focus successfully on areas which we believe are key, as set out last year:

Focus on larger customers in SME space

We continue to target the mid enterprise market. The significant downward shifts in ARPU as the economy has deteriorated in this period has meant that our regular analysis of customers spending over £1,000 has been distorted by a number of customers falling below the £1,000 threshold although they have not been lost to the Group, and in most cases have not moved a product away. Accordingly we will now report on new larger customers joining or leaving the Group.

In the six months to 31 March 2009 we have connected or contracted 140 new customers with recurring revenues of more than £1,000 per month. In the same period, we have lost 62 customers who previously spent more than £1,000 with us, and so on a net basis, there was a net gain of 78 (H1 2008: 111). Of these, we have already announced some significant multi-product contract wins with Macmillan, Weightmans and ATP the Advanced Travel Partner, which amounted to £0.9m on hardware and £540,000 recurring annual revenue between them. These are larger contracts than the Group would have enjoyed prior to the acquisition of Echo.

The success of cross selling products into our existing smaller customers so that smaller customers become larger ones can 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 39% (up from 35% in March 2008). This has been helped by the number of multi-product new customers. Not surprisingly, in the larger customer base (who spend > £1,000) we have seen significant increases in product penetration, with the number of large customers with more than one product up to 73% (67% in March 2008, 70% September 2008) and those with 3 products or more up to 55% (44% in March 2008, and 50% at 30 September 2008). This reflects the success of cross selling products since the Echo acquisition in August 2007.

Reduction in churn

The group has continued to experience encouraging low churn levels across all products, and is holding up well in a competitive environment. This is in spite of an escalation in the number of insolvencies amongst our client base. Insolvencies in the first six months of 2009 numbered 40 out of a customer base of approximately 5,000 and this was increased from 29 in the previous six months. Less than a fifth of these insolvencies were customers spending more than £1,000 per month. Prior to the commencement of the credit crunch, 40 insolvencies a year would be typical, and normally 80% or more involved only the smallest legacy customers. Mobile churn is covered separately above.

Product development

Since October 2008, we have launched the Blackberry "Storm" and "Netbooks", each of which have met with some business customer demand but as expected, fairly limited as they are hybrid consumer-business products. On the business end, we have introduced:

- New BlackBerry Curve 8900, a 2.5G device with wi-fi which offers similar processing power and features to the 3G Bold but at a lower price point.
- BlackBerry Enterprise Server 5.0 – increased security, resilience, and ease of management for corporate BlackBerry fleets, also paving the way for a host of end-user improvements when the new handset software follows later this year.
- Recession based flexi-tariffs and flexi-contracts, across mobile and outbound solutions as well as multi-product subsidy packages.
- A suite of Unified Communications products from Avaya enabling the user to access the functionality of the corporate PBX regardless of location or device.
- We have also registered as a partner with Cisco.

The key innovations expected in the next six months are:

- Personal billing – launch of personal billing utility, with a memory function allowing future bills to be automatically split based on initial end user input. This will allow businesses to reclaim non business costs and allocate irrecoverable VAT more easily
- Tariff innovations which align mobile and office based calls and rental packages

- Introducing WLR3 initially for Analog lines which will facilitate rapid install of temporary lines for customers as well as allow considerable back office efficiencies;
- Unified Communications and Tele-collaboration suite of products from Mitel

Growth by Acquisition

The change in economic environment has expanded the pool of interesting opportunities as the number of businesses in disarray or those with distressed owners increases. The market expectations of vendors in the private companies have yet to match the adjusted expectations of the boards and shareholders in quoted companies, but we are seeing some realism creep in with recent deals announced. We continue to assess a number of businesses both actively being marketed and those we have been in contact with over the years and remain hopeful for an earnings enhancing deal with a successful fit to the Group.

Outlook

The Board expects current conditions to be maintained over the next six months ahead, with business to business service providers facing continued depressed levels of spend from existing customers. However, opportunities to gain further market share and grow by acquisition look encouraging, and our cash generation and strong balance sheet are expected to provide us with leverage as those opportunities arise. It has been important to review our cost base promptly and our increase in market share, our low level of customer attrition and our increased cross selling in this period all serve to reaffirm our confidence in our strategy for growth.

James Murray
Edward Spurrier

UNAUDITED CONSOLIDATED INCOME STATEMENTS

	Notes	Six months to 31 March 2009 £'000	Six months to 31 March 2008 £'000	Year to 30 September 2008 £'000
Turnover:		45,591	46,094	93,707
Cost of sales		(29,923)	(29,888)	(60,913)
Gross profit		15,668	16,206	32,794
Operating costs		(12,277)	(11,938)	(24,039)
Operating profit:		3,391	4,268	8,755
Total operating profit – analysed:				
Operating profit before share based payments and amortisation of intangible assets		4,314	5,029	10,433
Share based payments		(270)	(74)	(303)
Amortisation of intangible fixed assets	8	(653)	(687)	(1,375)
Total operating profit		3,391	4,268	8,755
Profit on part disposal of subsidiary operations		-	-	-
Finance income		60	89	223
Finance costs		(15)	(44)	(77)
Profit on ordinary activities before taxation		3,436	4,313	8,901
Taxation on profit on ordinary activities	7	(972)	(1,267)	(2,402)
Profit on ordinary activities after taxation		2,464	3,046	6,499
Attributable to:-				
Equity shareholders of the company		2,464	3,044	6,497
Minority interest		-	2	2
		2,464	3,046	6,499
Earnings per ordinary share:				
Basic	4	5.8p	6.7p	14.3p
Diluted	4	5.4p	6.4p	13.7p

UNAUDITED CONSOLIDATED BALANCE SHEETS

		Six months to 31 March 2009 £'000	Six months to 31 March 2008 £'000	Year to 30 September 2008 £'000
	Notes			
ASSETS				
Non-current assets				
Intangible assets	8	18,413	19,879	19,416
Tangible assets		2,995	2,116	2,204
Deferred tax asset		388	436	675
Assets held for re-sale	11	-	1,195	887
Property deposits		13	-	14
		21,809	23,626	23,196
Current assets				
Inventories		246	293	382
Trade and other receivables		13,446	14,931	14,450
Cash and cash equivalents	10	6,464	5,905	4,227
		20,156	21,129	19,059
Total assets		41,965	44,755	42,255
EQUITY AND LIABILITIES				
Equity				
Called up share capital		56	60	57
Share premium		4,848	4,580	4,721
Capital redemption reserve		3	-	3
Merger reserve		1,905	1,905	1,905
Treasury shares held		(1,422)	-	(1,422)
Retained earnings		15,070	14,127	14,791
		20,460	20,672	20,055
Minority interest		-	9	-
		20,460	20,681	20,055
Current liabilities				
Borrowings	10	69	34	35
Deferred consideration		-	-	97
Trade and other payables		19,341	20,734	19,771
		19,410	20,768	19,903
Non-current liabilities				
Borrowings	10	894	978	960
Deferred consideration		-	447	-
Deferred tax liabilities		1,201	1,881	1,337
		2,095	3,306	2,297
Total liabilities		21,505	24,074	22,200
Total equity and liabilities		41,965	44,755	42,255

UNAUDITED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Shares held in treasury	Profit and loss	Total	Minority interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01-Oct-07	60	4,577	-	1,905	-	12,217	18,759	7	18,766
Shares issued	-	3	-	-	-	-	3	-	3
IFRS2 share based payments	-	-	-	-	-	74	74	-	74
Deferred tax on share options	-	-	-	-	-	(112)	(112)	-	(112)
Retained profit for financial period	-	-	-	-	-	3,044	3,044	2	3,046
Dividends paid	-	-	-	-	-	(1,096)	(1,096)	-	(1,096)
Balance at 31-Mar-08	60	4,580	-	1,905	-	14,127	20,672	9	20,681
Shares issued	-	16	-	-	-	-	16	-	16
IFRS2 share based payments	-	-	-	-	-	229	229	-	229
Share buy-back	(3)	-	3	-	(1,422)	(2,681)	(4,103)	-	(4,103)
Shares issued to purchase minority interest	-	188	-	-	-	-	188	(9)	179
Share expenses	-	(63)	-	-	-	-	(63)	-	(63)
Deferred tax on share options	-	-	-	-	-	378	378	-	378
Retained profit for financial period	-	-	-	-	-	3,453	3,453	-	3,453
Dividends paid	-	-	-	-	-	(715)	(715)	-	(715)
Balance at 30-Sep-08	57	4,721	3	1,905	(1,422)	14,791	20,055	-	20,055
Shares issued	-	127	-	-	-	-	127	-	127
IFRS2 share based payments	-	-	-	-	-	270	270	-	270
Share buy-back	(1)	-	-	-	-	(706)	(707)	-	(707)
Deferred tax on share options	-	-	-	-	-	(366)	(366)	-	(366)
Retained profit for financial period	-	-	-	-	-	2,464	2,464	-	2,464
Dividends paid	-	-	-	-	-	(1,383)	(1,383)	-	(1,383)
Balance at 31-Mar-09	56	4,848	3	1,905	(1,422)	15,070	20,460	-	20,460

UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Six months to 31 March 2009 £'000	Six months to 31 March 2008 £'000	Year ended 30 September 2008 £'000
Cash flows from operating activities				
Cash generated from operations	9	5,321	5,495	10,335
Income tax paid		(1,160)	(791)	(1,940)
Net cash from operating activities		4,161	4,704	8,395
<i>Cash flows from investing activities;-</i>				
Purchases of property, plant and equipment		(233)	(481)	(919)
Proceeds from sale of property, plant and equipment		15	-	-
Interest received		60	89	223
Purchase of subsidiary undertaking		245	(125)	(276)
Net cash from/(used in) investing activities		87	(517)	(972)
<i>Cash flows from financing activities;-</i>				
Dividends paid	3	(1,383)	(1,096)	(1,811)
Proceeds from issue of share capital		127	3	19
Payments made for share buy-backs		(707)	-	(4,102)
Share expenses		-	-	(63)
Capital element of loan repayments		(33)	(567)	(584)
Interest paid		(15)	(44)	(77)
Net cash used in financing activities		(2,011)	(1,704)	(6,618)
Increase in cash and cash equivalents		2,237	2,483	805
Cash and cash equivalents at start of period		4,227	3,422	3,422
Cash and cash equivalents at end of period		6,464	5,905	4,227

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial information contained in this interim statement does not constitute accounts as defined by section 240 of the Companies Act 1985. The interim report has been neither audited nor reviewed by the Group's auditors. The financial information for the year ended 30 September 2008 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 237 of the Companies Act 1985.

Alternative Networks plc's consolidated financial statements and these interim financial statements have been prepared in accordance with IFRS and International Accounting Standards (IAS).

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 interim results were approved by the Board on 25 June 2009.

2. Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2008, 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 2008 proposed final dividend of 3.10 pence per £0.00125p ordinary share, which was paid on 26 January 2009 (2008: represents the 2007 proposed and paid final dividend of 2.30 pence per £0.00125p ordinary share). The amount of dividend paid was £1,383,000 (2007: £1,096,000).

The directors propose a dividend for the 2009 interims of 1.6 pence per £0.00125p ordinary share (2008: 1.5 pence per share), with a total payment value of £730,000 (2008: £715,000). This was approved on 28 May 2009, and has not been accrued in the financial statements. This will be paid on 17 July 2009 to shareholders on the register on 3 July 2009. The ex-dividend date is 1 July 2009.

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 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 6 Months to March 2008			
Earnings per shares - basic	3,044	45,730,000	6.7
Potential dilutive shares	-	1,595,000	(0.3)
Earnings per shares - diluted	3,044	47,325,000	6.4
For the year to September 2008			
Earnings per shares - basic	6,497	45,337,790	14.3
Potential dilutive shares	-	1,955,157	(0.6)
Earnings per shares - diluted	6,497	47,292,947	13.7

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 2009			
Earnings per shares - basic	3,127	42,724,697	7.3
Potential dilutive shares	-	2,497,968	(0.4)
Earnings per shares - diluted	3,127	45,222,665	6.9
For the 6 Months to March 2008			
Earnings per shares - basic	3,583	45,730,000	7.8
Potential dilutive shares	-	1,595,000	(0.2)
Earnings per shares - diluted	3,583	47,325,000	7.6
For the year to September 2008			
Earnings per shares - basic	7,490	45,337,790	16.5
Potential dilutive shares	-	1,955,157	(0.7)
Earnings per shares - diluted	7,490	47,292,947	15.8

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 of 1,915,200. These shares are then added to the total of extant options when calculating the fully diluted weighted average number of shares.

There were 45,595,457 shares in issue at 31 March 2009 including 1,000,000 shares held in treasury. On 31 March 2008 there were 47,645,520 shares. The weighted average number of shares during the six months to March 2009 was 42,751,023 (2008: 45,730,000).

5. Reconciliation to adjusted performance

	31 March 2009 £'000	31 March 2008 £'000	30 September 2008 £'000
Profit before tax	3,436	4,313	8,901
Amortisation of intangible assets excluding computer software	653	687	1,375
Share based payments	270	74	303
Adjusted profit before tax	4,359	5,074	10,579
Less taxation per profit and loss account	(972)	(1,267)	(2,599)
Less taxation on adjustments	(260)	(224)	(490)
Adjusted profit after tax	3,127	3,583	7,490

Adjusted earnings per share (note 4) are calculated using the above adjusted profits. Please note the taxation charge for the full year ended 30 September 2008 is based on the underlying rate, and not the disclosed tax charge which was net of material prior year overprovision adjustments.

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. Segmental Information

IAS 14 requires the disclosure of detailed segmental information based on internal management information as it is reported to the board. Alternative Networks business units are Mobile, Network Services, and Advanced Solution as setup out within Business Review.

Since all sales are made within the United Kingdom, Alternative Networks do not consider any secondary segmental reporting to be appropriate.

7. 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 2009 is 28.3% (the estimated tax rate for the first half to 31 March 2008 was 29.4%). 1% of the difference is due to the change in corporation tax rates from 30% to 28% in April 2008, and the effective standard rate of tax in the comparative period was 29%.

8. Intangible fixed assets

	Purchased customer contracts	Computer software	Other intangibles	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 October 2008	1,662	1,469	5,865	13,361	22,357
Additions	-	129	-	-	129
Transfers	-	265	-	-	265
Consideration returned	-	-	-	(339)	(339)
At 31 March 2009	1,662	1,863	5,865	13,022	22,412
Amortisation					
At 1 October 2008	795	639	1,120	387	2,941
Charge for period	168	147	485	-	800
Depreciation on transfers	-	258	-	-	258
At 31 March 2009	963	1,044	1,605	387	3,999
Net book amount					
At 31 March 2009	699	806	4,260	12,635	18,413
At 30 September 2008	867	830	4,745	12,974	19,416

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

9. Cash generated from operations

	Six months to 31 March 2009 £'000	Six months to 31 March 2008 £'000	Year ended 30 September 2008 £'000
Operating profit	3,391	4,268	8,755
Adjustments for:-			
Depreciation of tangible fixed assets	193	287	358
Amortisation of intangible assets	800	687	1,637
Employee share scheme charges	270	74	303
Loss/(Profit) on sale of fixed assets	(15)	-	3
Movements in working capital:-			
Decrease in property deposits	1	-	51
Decrease / (Increase) in inventories	136	(24)	(113)
Decrease in trade debtors	655	751	1,826
Decrease / (Increase) in other debtors and prepayments	348	(1,265)	(2,025)
Increase/ (decrease) in trade creditors	47	439	(1,141)
(Decrease) / increase in other tax and social security creditors	(456)	(278)	(282)
Increase in other creditors and accruals	(49)	556	963
Cash generated from operations	5,321	5,495	10,335

10. Analysis of movement of net funds

	As at 1 October 2008 £'000	Cash flow £'000	As at 31 March 2009 £'000
Net Cash:			
Cash at bank and in hand	4,227	2,237	6,464
Debt			
Debt due within one year	(35)	(34)	(69)
Debt due after one year	(960)	66	(894)
Total debt	(995)	32	(963)
	3,232	2,269	5,501

11. Assets held for resale

The Board has decided that as a result of the current property market the Burr Road property will not be sold at this time and instead intends to lease part of the property and retain part of the property for the company's own use. Accordingly this asset has been transferred back into tangible fixed assets.