Alternative Networks plc
Interim results for the six months to 31 March 2010

James Murray, Chief Executive Officer
Edward Spurrier, Chief Financial Officer

Highlights – 6 months to 31 March 2010

Another set of strong results

- Good organic growth in a flat market
- Significant market share gains
- Key Financial Highlights
  - Sales up 3% to £47.1m
  - Pre tax profits up 31% to £5.7m
  - Net cash - £9.4m
  - Dividend of 5p paid April 1st

Future growth

Primed for more growth

- A strong and reliable engine for organic growth
  - Converged product set
  - Strong operational management team
  - Industry leading direct sales force
    - Successful target of larger customers
    - Significant cross sell penetration

- Acquisitions
  - AKJ – exceeding expectations
    - Potential new products and revenue streams
    - Exploring opportunities with ‘partners’
  - 2 Acquisitions in pipeline
    - Both in data space and meeting ‘ Right Fit’ criteria
  - Proven integration ability

Results highlights – 6 months to 31 March 2010

alternative
NETWORKS SYSTEMS MOBILITY

Financial / Operational

- Growth through market share gains
  - Mobile base up 17% to 63,543 subscribers
  - Fixed line users up 32% to 73,562
  - Data and pbx base holding steady
- Operating profits up 32% to £5.7m
- EPS up 26% to 8.6p.
  - impact of share based payments not added back
- Cash conversion remains excellent
  - 137% conversion, 104% even ignoring net working capital inflows
  - Free cash flow of £6.4m vs £4.0m H1 09
- AKJ small but positive contribution
  - Sales and profits in line first 5 months
  - £0.75m EBITDA annualised vs. £0.6m in 2009

Corporate

- Interim dividend of 5 pence paid April 1st
  - 2p interim brought forward – 25% up
  - 3p second interim – property sale
  - Final due Jan 2011 – expect at least 3.5 pence
- Share buy backs
  - £0.3m October 2009
  - Renewed authority for 3 years to March 2013
- Diary notes :
  - £12m unutilised Bank facility for renewal January 2011
  - Mobile SP contracts for renewal:

    Vodafone - December 2010

    O2 - July 2011

Profit and loss - 6 months to 31 March 2010

	Six months to 31 March 2010 £000	Six months to 31 March 2009 £000	Change %	Year ended 30-Sep-09 £000
Turnover	**47,114**	45,591	3%	89,676
Gross profit **	**17,039**	15,949	7%	31,381
Margin	***36.2%***	*35.0%*		*35.0%*
Operating profit*	**5,685**	4,314	32%	8,986
Margin	***12.1%***	*9.5%*		*10.0%*
Profit before taxation*	**5,730**	4,359	31%	9,070
Earnings per share*				
Basic Adjusted	**8.6p**	6.8p	26%	14.4p
Diluted	**8.1p**	6.4p	27%	13.6p ***
Statutory reported Earnings per share				
Basic	***8.0p***	*5.8p*	34%	*12.0p*
Diluted	***7.5p***	*5.4p*	37%	*11.3p ****

** Underlying performance before intangible assets amortisation, excluding software, and share based payments.*

*** Gross profits for 2009 restated to reallocate technical support costs to customer services, as per 2010, increasing gross profits £0.5m, margin 0.6%.*

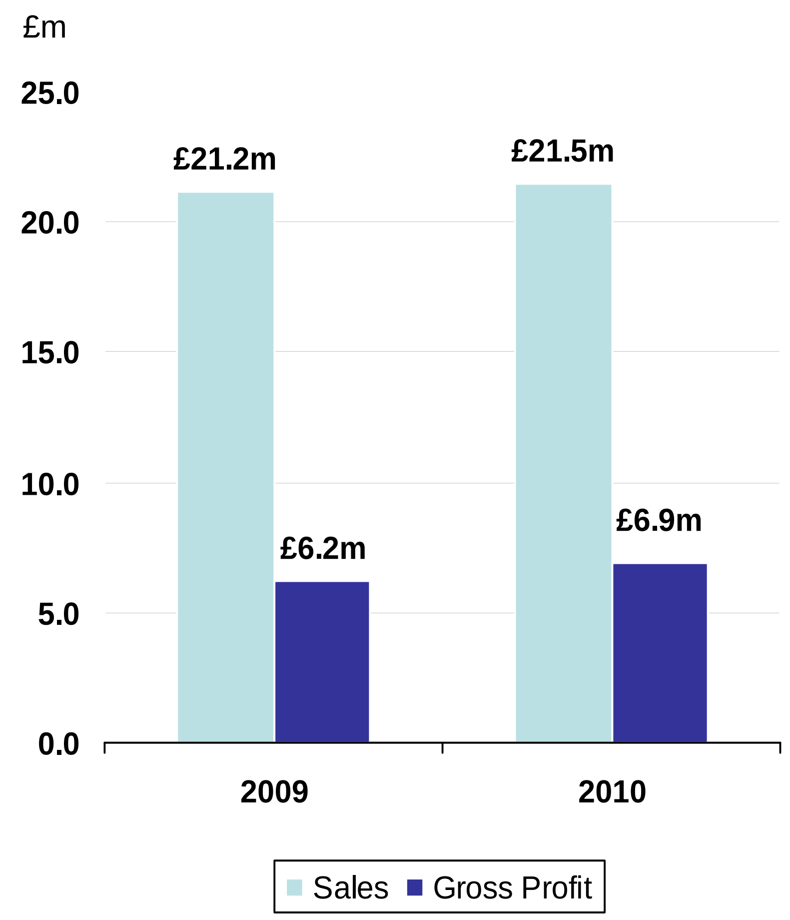
**** FY2009 Diluted EPS has been restated to include the 2008 LTIP options awards previously considered under water. Impact 0.3 pence. Enables like for like comparison.*

Cash flow – 6 months to 31 March 2010

	Six months to 31 March 2010 £000	Six months to 31 March 2009 £000	Change £000	Year ended 30 Sept 2009 £000
Operating cash inflow	**5,838**	4,640	1,198	9,598
Working capital inflow	**1,772**	681	1,091	1,007
Cash generated from operations	**7,610**	5,321	2,289	10,605
Tax paid	**(1,224)**	(1,160)	(64)	(2,458)
Net cash from operating activities	**6,386**	4,161	2,225	8,147
Capex	**(47)**	(218)	171	(297)
Interest (net)	**44**	45	(1)	77
			-	
Free Cash Flow	**6,383**	3,988	2,395	7,927
Sale of property - Burr Road (Echo surplus property)	**719**	-	719	-
Dividends	**(1,552)**	(1,383)	(169)	(2,088)
Share capital - (net share buy backs)	**(309)**	(580)	271	(1,222)
Investments - AKJ acquisition	**(3,701)**	245	(3,946)	242
Loan repayments	**(231)**	(33)	(198)	(71)
Increase in cash and cash equivalents	**1,309**	2,237	-928	4,788
Cash and cash equivalents at start of period	**9,015**	4,227	4,788	4,227
Cash and cash equivalents at end of period	**10,324**	6,464	3,860	9,015
Bank loans - Mortgage on HQ	**(951)**	(963)	12	(923)
Net cash funds	**9,373**	5,501	3,872	8,092

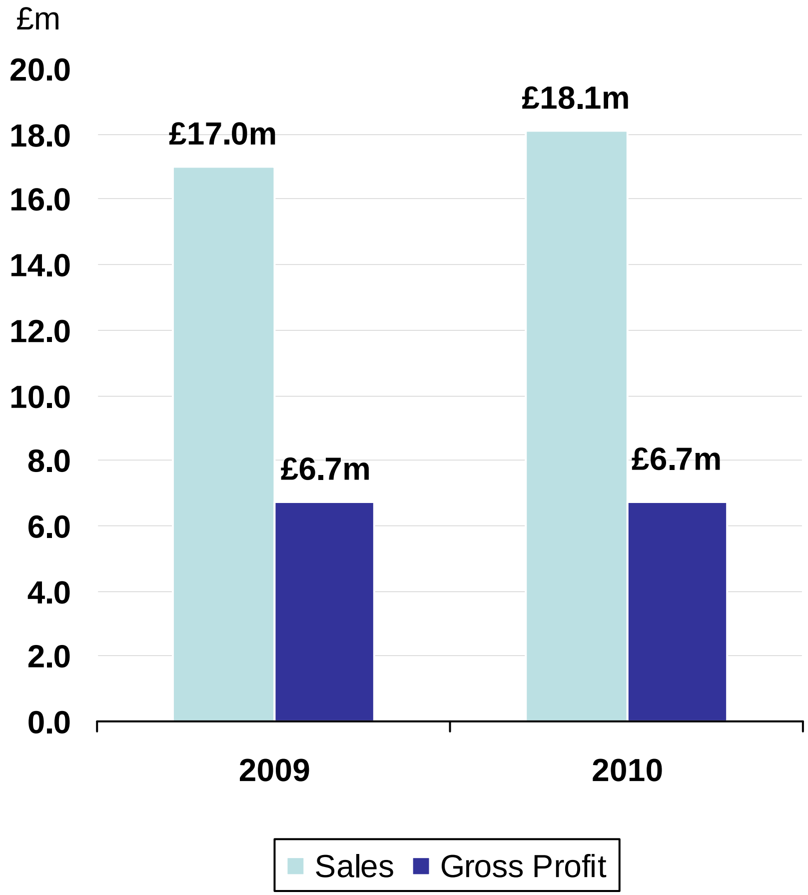
Mobile – 6 months to 31 March 2010

KPIs	31 March 2010	31 March 2009	30 Sept 2009
Subscribers at 31 March	**63,543**	54,278	55,299
Base – AN contracted	**56,302**	54,278	55,299
ARPU (£)	**51**	55	53
Ave Contract Length	**22m**	22m	22m
Gross new connections	**6,815**	8,521	16,429
Network Churn	**18%**	18%	20%
Customer churn - £value	**15%**	15%	15%
% Subscribers in-contract	**80%**	86%	82%
Data connections (included in the above)	**24,574**	18,741	23,146
Data connections as % of total subscribers	**44%**	35%	42%
Gross Margins	**32%**	29%	30%



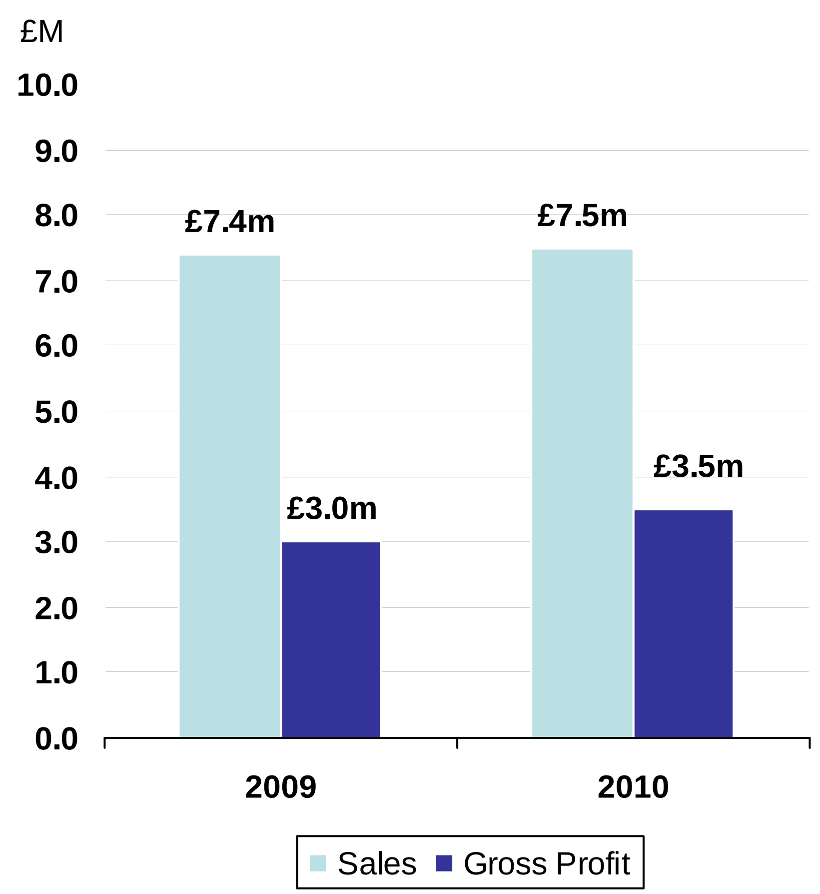
Network Services – 6 months to 31 March 2010

KPIs	31 March 2010	31 March 2009	30 Sept 2009
Gross Margins	**37%**	**39%**	38%
<u>Outbound KPIs</u>			
Monthly ARPU £	**1,193**	**1,062**	1,080
Average contract length (months)	**19m**	**19m**	19m
WLR Rental Revenues	**£6.4m**	**£5.0m**	£10.7m
WLR % total Outbound revenues	**44%**	**38%**	40%
Number of outbound lines/channels	**73,562**	**55,780**	67,587
<u>Inbound KPIs</u>			
Inbound Revenues	**£3.7m**	**£3.6m**	£6.9m
Inbound margins	**52%**	**57%**	54%



Advanced Solutions – 6 months to 31 March 2010

Sales	2010 Group	2009 Group	30 Sept 2009
Systems – PBX	**£2.8m**	£4.1m	£7.7m
Maintenance	**£2.3m**	£2.3m	£4.6m
Data Services	**£1.0m**	£1.0m	£2.0m
AKJ - Billing	**£1.4m**	-	-
Total	**£7.5m**	£7.4m	£14.3m
Maintenance Stats			
Maintenance GP	**£2.0m**	£2.1m	£4.2m
Engineering Costs	**(£0.7m)**	(£1.0m)	(£1.8m)
Gross Margins			
AKJ – Billing	**57%**	-	-
Echo	**44%**	41%	43%
Gross Margins	**46%**	41%	43%



Market position – AN

Holding the key to the SME space

- Dominant position in mid market (SMEs)
  - AN current target market – 80-1000 employee businesses
  - Seen as key partner by Network Operators to access this space

- Operational differentiators
  - Strong converged product set
  - Strong direct sales team – primed for growth
  - Proven integration ability

Conclusion

- Another set of strong results in a testing market
- Very strong financial position
- Exceptional cash generation
- Confident of engine for further organic growth
- Holding the key to the SME space

Appendices

- 14
- 15

Balance Sheet

ASSETS:	Unaudited Six months to 31 March 2010 £000	Unaudited Six months to 31 March 2009 £000	Audited Year to 30 September 2009 £000
Non-current assets			
Intangible assets	**21,985**	18,413	17,755
Tangible assets	**1,920**	2,995	2,708
Deferred tax and other	**857**	401	442
Property for resale		-	
	24,762	21,809	20,905
Current assets			
Inventories	**190**	246	168
Receivables	**14,587**	13,446	12,535
Cash and cash equivalents	**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	**5,699**	4,848	4,855
Capital redemption reserve	**4**	3	4
Merger reserve	**1,905**	1,905	1,905
Treasury shares held	**(1,422)**	(1,422)	(1,422)
Retained earnings	**18,510**	15,070	16,607
Minority interest	**-**	-	-
	24,755	20,460	22,005
Current liabilities	**22,812**	19,410	18,654
Deferred tax liabilities	**1,424**	1,201	1,090
Non-current liabilities	**872**	894	874
Total liabilities	**25,108**	21,505	20,618
Total equity and liabilities	**49,863**	41,965	42,623

Profit and Loss Account

alternative
NETWORKS SYSTEMS MOBILITY

	Unaudited Six months to 31 March 2010 £000	Unaudited Six months to 31 March 2009 £000	Audited Year to 30 September 2009 £000
Turnover	47,114	45,591	89,676
Cost of sales	(30,075)	(29,642)	(58,295)
Gross profit	17,039	15,668	31,381
Operating profit	4,536	3,391	7,031
Total operating profit - analysed:			
Operating profit before share based payments and amortisation of intangible assets acquired	5,685	4,314	8,986
Share based payments	(455)	(270)	(565)
Amortisation of intangible fixed assets	(694)	(653)	(1,220)
Impairment of freehold 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	(1,214)	(972)	(2,024)
Profit on ordinary activities after taxation	3,367	2,464	5,091
Attributable to:-			
Equity shareholders of the company	3,367	2,464	5,091
Earnings per ordinary share:			
Basic	8.0p	5.8p	12.0p
Diluted	7.5p	5.4p	11.3p