

7 December 2010



Daisy Group plc

Unaudited interim results for the 6 months ended 30 September 2010

Daisy Group plc (AIM: DAY), a leading provider of unified business communications services, is pleased to announce its unaudited interim results for the half year ended 30 September 2010.

Summary	Unaudited 6 months ended 30 Sep 10 £million	Unaudited 9 months ended 30 Sep 09 £million
Results from continuing operations		
Revenue	120.0	30.9
Adjusted EBITDA	16.1	1.4
Adjusted earnings per share (pence)	4.3	1.3
Reported results		
Net cash generated/(used) from operating activities	10.2	(4.0)
Net (debt)/cash	(2.2)	9.4

Operational highlights

- Three corporate acquisitions completed; CRC, Fone Logistics and Murphx
- Strong operating cash flow generation
- Integration activity running to plan
- £75 million revolving credit facility agreed to June 2013
- Continued commitment to strategy

Post period highlights

- Two further acquisitions; SpiriTel plc and NEG MBO Two Limited

Matthew Riley, CEO of Daisy, commented:

"The period under review has included significant corporate activity and the team has worked exceptionally hard to ensure that the Group is in a position to report such strong results."

"The integration of the Group's acquisitions has proved timely and successful; illustrating that our integration structure and processes are efficient and effective and will serve the Group whilst it continues to drive its stated growth strategy."

"We firmly believe that Daisy Group has the right foundations in place to continue consolidating the fragmented UK SME and mid-market telecommunications sector, and drive shareholder value."

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Enquiries:**Daisy Group plc**

Katharine Butler, Head of PR

Tel: 01282 607785

Liberum Capital Limited

Steve Pearce / Tom Fyson

Tel: 020 3100 2220

Redleaf Communications Limited

Emma Kane / Rebecca Sanders-Hewett

daisy@redleafpr.com

Tel: +44 (0)20 7566 6700

Notes to editors:

- Daisy Group has a proven buy and build strategy. Its robust platform supports the provision of its integrated voice and data services:
 - its retail channel services more than 70,000 customers in the SME business market
 - its wholesale channel services 850 active resellers providing a unified product set, managed billing services, and white label maintenance and engineering
 - its distribution channel is responsible for 250 active dealers and over 65,000 connections
- It has four core centres of excellence:
 - mobile solutions
 - data solutions
 - systems services
 - network services
- Its comprehensive range of products and services include access, hosting, voice, managed services and mobile telephony.
- For more information on the Group please visit: www.daisyplc.com

CHAIRMAN'S STATEMENT

OVERVIEW

During the 6 months ended 30 September 2010, the Group has continued to implement its stated strategy of consolidating the fragmented SME and mid-market communications sector and has made good progress towards its aim of being one of the largest providers of unified communication services in the UK to the SME and mid-market sector.

The Group has completed three corporate acquisitions within the period, being Cole Robert & Co Limited ("CRC"), Fone Logistics Limited ("Fone Logistics") and Murphx Innovative Solutions Limited ("Murphx"). The CRC acquisition was funded from cash reserves, whilst Fone Logistics and Murphx were funded via the new £75.0 million revolving credit facility that was put in place in June 2010. This facility provides the Group with support for further acquisitions and working capital requirements until June 2013.

The integration of the above acquisitions is progressing to plan. The former CRC business has now been absorbed within the Group's Wholesale division and the original premises in Stoke have been closed. The Fone Logistics business has been absorbed into the Mobile Distribution division. The former premises in Cramlington have been closed and the business is now managed from our Ipswich site. The Murphx business in Eastleigh now forms the base for the Wholesale division, with all reseller activity (network services, data solutions and mobile solutions) now being managed by one combined wholesale team.

All of the hard work and commitment shown by our employees over the last 18 months is now beginning to be reflected in the financial results of the Group. Revenue has increased by 288% on the comparative period from 2009 to £120.0 million. Earnings before interest, tax, depreciation, amortisation of intangible assets, net exceptional operating costs and share based payments ("adjusted EBITDA") have increased by 1,050% to £16.1 million. Particularly pleasing is the strong operating cash generation in this period of £10.2 million, or 88% of adjusted EBITDA after net exceptional operating costs.

ACQUISITIONS AND DISPOSALS

Following the transformational acquisitions which took place in the period ended 31 March 2010, the Group has completed the acquisition of a further 3 businesses during the 6 months ended 30 September 2010.

Acquisition of CRC

On 22 April 2010 the Group acquired the entire issued share capital of CRC, a wholesale telecoms and internet service provider, with the majority of the business being a white-label broadband offering, over a range of broadband networks.

Total consideration was £2.1 million, all of which has been settled in cash.

Acquisition of Fone Logistics

On 10 June 2010 the Group announced the acquisition of the entire issued share capital of Fone Logistics, a provider of mobile handsets and airtime to the SME market via an independent dealer channel.

Total consideration of £3.7 million was settled in cash.

Acquisition of Murphx

On 22 June 2010 the Group announced the acquisition of the entire issued share capital of Murphx, a provider of data connectivity and hosted solutions. The initial £4.8 million consideration for the acquisition was settled in cash. Further consideration will become payable based on growth over a two year period. A discounted liability of £8.4 million, representing the estimated amount of contingent consideration payable, has been included within the balance sheet.

All three of the above acquisitions have now been integrated within the Daisy Group.

CHAIRMAN'S STATEMENT (continued)

ACQUISITIONS AND DISPOSALS (continued)

The former businesses of CRC and Murphx have been incorporated within the Daisy Wholesale division, which is now managed from our Eastleigh site. CRC's original offices in Stoke have been closed and the lease surrendered.

The former business of Fone Logistics has been combined with the Mobile Distribution division. The previous premises in Cramlington have been closed and the lease surrendered. This enlarged division is managed from the Mobile Distribution offices in Ipswich and is already benefitting from its increased scale.

Following the reverse takeover in 2009, the various acquisitions since that date and subsequent significant integration activity, the Group now has very strong capabilities across the four main product areas of Data, Mobile, Voice and Systems. These capabilities enable the Group to offer unified communications services to the SME and mid-market sector via its Retail and Wholesale channels. All future acquisitions will fall into one of these areas of strength, further enhancing the Group's scale and / or product offering.

Disposals and discontinued operations

On 27 April 2010 the Group disposed of its 50% shareholding in Network Business Call Limited ("NBC") for cash consideration of £0.1 million. NBC enjoyed annual revenues of £1.2 million in the last full year before acquisition by the Daisy Group. On 10 May 2010, the Group disposed of its 50% shareholding in Network Billing Services Limited ("NBS") for cash consideration of £0.2 million. NBS enjoyed revenues of £1.4 million in the last full year before acquisition by the Daisy Group. The combined profit on disposal of £0.3 million has been included within net exceptional operating costs.

On 17 June 2010 the Group announced the disposal of its WiMAX spectrum licences to UK Broadband Limited, part of the PCCW Group, for a cash consideration of £12.5 million. The WiMAX spectrum licences were held within the Freedom4 Limited sub-group, which was classified as a disposal group held for sale. The carrying value of the Group's investment in Freedom4 Limited at 31 March 2010 was £4.9 million and intercompany funding to 30 September 2010 totalled £0.8 million, whilst fees associated with the disposal amounted to £0.1 million. The disposal has therefore given rise to a profit on disposal of £6.7 million, which has been included within discontinued operations.

FUNDING

On 4 June 2010 the Group announced that it had entered into a new £75.0 million banking facility. The facility is provided by Lloyds TSB plc, Yorkshire Bank and HSBC Bank plc with each bank lending £25.0 million. This facility provides the Group with finance to support its acquisition strategy as well as providing additional working capital. The board will continue its prudent approach to debt levels and will operate within a net debt to adjusted EBITDA ratio of 2.5.

BOARD CHANGE

On 7 October 2010 Ian Butcher, a non-executive director of the Company, stepped down from his position with immediate effect to devote more time to the continuing development of his own property business.

On behalf of the board, I would like to take this opportunity to thank Ian for his contribution to the Group, and wish him every success in the future.

CHAIRMAN'S STATEMENT (continued)

OPERATIONAL REVIEW

During the 6 months ended 30 September 2010, the Group has continued to make good progress towards its stated aim of being one of the largest providers of unified communications services in the UK to the SME and mid-market sector.

The Group has been transformed since the reverse takeover in July 2009 and revenues and profitability have increased significantly in the 6 months ended 30 September 2010. Integration and restructuring activity has continued apace, with the Group now operating in three key divisions of Retail, Wholesale and Mobile Distribution.

The Retail division provides a comprehensive suite of products to its 70,000-strong customer base across its four operating segments of network services, data solutions, mobile solutions and system services. The 6 months ended 30 September 2010 saw this division contribute £89.5 million in revenue (74.5% of the Group's total revenue for this period).

The Wholesale division now consists of the activity originally included within Daisy Wholesale Limited and business acquired under the Murphx transaction. The Group is therefore able to offer a combination of network services, data solutions and mobile solutions to other resellers. This division accounted for £12.5 million of revenue in the period under review (10.5 % of the Group's total revenue for this period).

The Mobile Distribution division focuses on connecting end user business customers to the mobile networks via a dealer channel. The revenues in this division are predominantly made up of commissions from the major network operators O2, Vodafone and Orange. The business brought in as part of the Fone Logistics acquisition has now been hived up into this division. For the 6 months ended 30 September 2010, the division contributed revenues of £18.0 million (15.0% of total Group revenues for the period).

Total Group revenue for the period can also be viewed across the four main product areas of Fixed Line Voice, Data, Mobile and Systems as:

Product area	£ million	% of total
Voice	57.1	48%
Data	22.4	19%
Mobile	29.5	24%
Systems	11.0	9%
	<u>120.0</u>	<u>100%</u>

This demonstrates the product diversity that the Group now delivers to retail and wholesale customers.

FINANCIAL REVIEW

The significant increase in revenue of 288% to £120.0 million (2009 £30.9 million) reflects the impact of the Group's acquisitions and on-going activity throughout 2009 and the first half of 2010.

The increase in volumes has given rise to adjusted EBITDA of £16.1 million (2009 £1.4 million).

All of the continuing revenue and adjusted EBITDA (excluding £0.5 million head office overheads) from the comparative period occurred between 21 July 2009 and 30 September 2009.

Amortisation of intangible assets has increased to £18.1 million (2009 £5.2 million) and relates primarily to the customer lists acquired from the various acquisitions to date. These customer lists have been valued on the basis of expected future discounted cash flows and are being written down over periods from 3 to 7 years.

Depreciation for the period totalled £1.4 million (2009 £0.7 million) and reflects the continuing low capital expenditure requirements of the Group relative to network carriers.

CHAIRMAN'S STATEMENT (continued)

FINANCIAL REVIEW (continued)

Net exceptional operating costs amounted to £4.5 million (2009 exceptional income £0.6 million). The 2010 costs consist of employee related restructuring costs of £0.8 million, direct costs arising from business combinations of £0.5 million, other restructuring costs of £3.4 million and other exceptional income items of £0.2 million. All of these costs have been incurred as a direct consequence of the acquisition or subsequent integration of the various acquisitions and disposals that have occurred in late 2009 and the first half of 2010.

Net finance costs for the period were £1.5 million (2009 net finance income £1.8 million) and consist of the costs relating to the new finance facility entered into during the current 6 month period as well as discounting charges in respect of provisions and contingent consideration. Unamortised costs relating to the previous facility are also included having been written off in the period.

Loss before tax from continuing operations was £9.8 million (2009 £2.1 million), which has given rise to an income tax credit of £4.1 million (2009 £1.2 million).

The profit generated from the disposal of the WiMAX licences has been classified as profit from discontinued operations. The profit of £6.7 million generated by the disposal contrasts sharply with the trading loss of £2.6 million in the prior period.

Profit after tax was £1.0 million (2009 loss £3.5 million).

Net cash generated from operating activities in the period was £10.2 million (2009 net cash used in operations £4.0 million).

Net debt at 30 September 2010 was £2.2 million (2009 net cash £9.4 million), which represents an improvement of £6.1 million from the position at 31 March 2010 (net debt £8.3 million).

POST BALANCE SHEET EVENTS

On 10 November 2010, the Group announced a recommended cash offer to acquire 100% of the share capital of SpiriTel plc ("SpiriTel") for £27.3 million and the assumption by the Group of £6.1 million of bank debt. At this date 90.9% of the share capital was acquired.

SpiriTel provides a fully integrated range of voice and data services directly to business customers together with infrastructure and wholesale voice services. Net assets acquired were £8.2 million, resulting in the recognition of provisional goodwill and customer relationship intangible assets of £25.2 million. As a direct result of this acquisition, the Group has entered into an agreement with O2 to operate as a centre of excellence in respect of the former SpiriTel mobile customer base.

On 1 December 2010, the Group acquired the entire issued share capital of NEG MBO Two Limited ("NEG") for an initial cash consideration of £23.5 million.

NEG provides network services, telephony hardware, installation and maintenance support to over 2,000 customers, 1,200 of which are General Practitioners. Net liabilities acquired were £0.4 million resulting in the recognition of provisional goodwill and customer relationship intangible assets of £23.9 million.

OUTLOOK

The board remains committed to its strategy of consolidating the fragmented UK SME and mid-market telecommunications sector. The results for the period under review are now beginning to reflect the benefits identified at the initiation of this strategy and whilst integration and rationalisation of acquired businesses will continue, the board expects the Group to trade in line with current market expectations through the second half of this year.

PETER DUBENS
EXECUTIVE CHAIRMAN
7 December 2010

CONSOLIDATED INCOME STATEMENT

		6 months ended 30 September 2010 £'000	9 months ended 30 September 2009 £'000	15 months ended 31 March 2010 £'000
	Note			
Revenue	3	119,973	30,885	134,355
Cost of sales		(73,745)	(19,333)	(82,779)
Gross profit	3	46,228	11,552	51,576
Operating costs		(54,558)	(15,460)	(69,099)
Operating loss		(8,330)	(3,908)	(17,523)
Adjusted EBITDA		16,076	1,406	10,975
Amortisation of intangibles		(18,147)	(5,228)	(20,506)
Depreciation		(1,436)	(650)	(1,945)
Net exceptional operating (costs)/income	6	(4,513)	564	(5,836)
Share based payment costs		(310)	-	(211)
Operating loss		(8,330)	(3,908)	(17,523)
Finance income		41	2,083	2,117
Finance costs		(1,551)	(265)	(771)
Net finance (costs)/income		(1,510)	1,818	1,346
Loss before tax		(9,840)	(2,090)	(16,177)
Income tax credit	8	4,078	1,231	5,004
Loss from continuing operations		(5,762)	(859)	(11,173)
Profit/(loss) from discontinued operations	5	6,716	(2,620)	(2,855)
Profit/(loss) after tax		954	(3,479)	(14,028)
Attributable to:				
Equity shareholders of the parent		870	(3,475)	(14,178)
Minority interests		84	(4)	150
Profit/(loss) after tax		954	(3,479)	(14,028)
Earnings/(loss) per share (pence)				
Basic earnings/(loss) per share				
From continuing operations		(2.29)	(0.80)	(6.82)
From discontinued operations		2.63	(2.45)	(1.72)
	7	0.34	(3.25)	(8.54)
Diluted earnings/(loss) per share				
From continuing operations		(2.29)	(0.80)	(6.82)
From discontinued operations		2.61	(2.45)	(1.72)
	7	0.32	(3.25)	(8.54)

A separate consolidated statement of comprehensive income has not been presented as there are no further items of comprehensive income other than as presented in the consolidated income statement above.

CONSOLIDATED BALANCE SHEET

		30 September 2010 £'000	30 September 2009 £'000	31 March 2010 £'000
	Note			
ASSETS				
Non-current assets				
Goodwill	9	73,234	50,183	62,285
Other intangible assets	10	171,920	154,668	167,968
Property, plant and equipment		6,247	6,212	6,294
Deferred tax asset		10,537	12,565	11,992
		261,938	223,628	248,539
Current assets				
Inventories		1,603	1,500	1,288
Trade and other receivables		42,035	39,558	39,631
Cash and cash equivalents		21,874	22,493	20,034
		65,512	63,551	60,953
Disposal groups classified as held for sale		-	4,061	4,891
		65,512	67,612	65,844
LIABILITIES				
Current liabilities				
Trade and other payables	11	(82,875)	(54,502)	(63,705)
Current tax liability		(2,378)	-	(611)
Borrowings	12	(499)	(5,317)	(27,871)
Provisions	13	(924)	-	(997)
		(86,676)	(59,819)	(93,184)
Liabilities associated with disposal groups classified as held for sale		-	(60)	-
		(86,676)	(59,879)	(93,184)
Net current (liabilities) / assets		(21,164)	7,733	(27,340)
Non-current liabilities				
Borrowings	12	(23,585)	(7,808)	(451)
Provisions	13	(3,707)	(2,643)	(1,905)
Deferred tax liability		(31,025)	(30,936)	(34,779)
Other non-current liabilities	14	(1,941)	(210)	(4,763)
		(60,258)	(41,597)	(41,898)
NET ASSETS		180,516	189,764	179,301
Equity attributable to the equity holders of the parent				
Share capital	15	5,294	5,110	5,261
Share premium reserve	15	88,040	84,013	86,743
Share merger reserve	15	83,500	83,500	83,500
Other reserves		1,490	1,490	1,490
Retained earnings		1,445	14,936	1,563
		179,769	189,049	178,557
Minority interests		747	715	744
TOTAL EQUITY		180,516	189,764	179,301

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium reserve £'000	Share merger reserve £'000	Other reserves £'000	Retained earnings £'000	Attributable to equity holders of the parent £'000	Minority interests £'000	Total equity £'000
	Note 15							
At 1 January 2009	1,076	8,286	-	753	17,539	27,654	-	27,654
Cancellation of treasury shares	(41)	(696)	-	737	-	-	-	-
Share issue net of associated costs	4,075	76,423	83,500	-	-	163,998	-	163,998
Share based payments	-	-	-	-	872	872	-	872
Business combinations	-	-	-	-	-	-	719	719
Loss for the period	-	-	-	-	(3,475)	(3,475)	(4)	(3,479)
At 30 September 2009	5,110	84,013	83,500	1,490	14,936	189,049	715	189,764
At 1 October 2009	5,110	84,013	83,500	1,490	14,936	189,049	715	189,764
Share based payments	-	-	-	-	211	211	-	211
Share issue to employee benefit trust	151	2,730	-	-	(2,881)	-	-	-
Business combinations	-	-	-	-	-	-	(125)	(125)
(Loss)/profit for the period	-	-	-	-	(10,703)	(10,703)	154	(10,549)
At 31 March 2010	5,261	86,743	83,500	1,490	1,563	178,557	744	179,301
At 1 April 2010	5,261	86,743	83,500	1,490	1,563	178,557	744	179,301
Share based payments	-	-	-	-	292	292	-	292
Share issue to employee benefit trust	33	1,297	-	-	(1,330)	-	-	-
Shares exercised from employee benefit trust	-	-	-	-	50	50	-	50
Disposal of subsidiary undertakings (note 5)	-	-	-	-	-	-	(58)	(58)
Business combinations (note 4)	-	-	-	-	-	-	(23)	(23)
Profit for the period	-	-	-	-	870	870	84	954
At 30 September 2010	5,294	88,040	83,500	1,490	1,445	179,769	747	180,516

CONSOLIDATED CASH FLOW STATEMENT

		6 months ended 30 September 2010 £'000	Restated 9 months ended 30 September 2009 £'000	Restated 15 months ended 31 March 2010 £'000
	Note			
Net cash generated/(used) from operating activities	16	10,224	(4,002)	(1,599)
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	4	(6,805)	(74,246)	(90,499)
Payment to acquire intangible assets		(7,262)	(117)	(1,465)
Proceeds from disposal of assets held by discontinued operations	5	12,433	-	-
Investment in discontinued operations/joint venture	5	(826)	(336)	(1,378)
Purchase of property, plant and equipment		(1,091)	(339)	(846)
Proceeds from sale of property, plant and equipment		84	-	-
Proceeds from sale of subsidiary undertakings	5	104	-	4
Proceeds from redemption of loan note		-	17,500	17,500
Interest received		41	2,373	2,408
Net cash used in investing activities		(3,322)	(55,165)	(74,276)
Cash flows from financing activities				
Proceeds from the exercise of share options		50	-	-
Proceeds from issuance of ordinary shares		-	78,498	78,498
Proceeds from bank borrowings net of fees		33,186	-	-
Repayment of borrowings		(21,273)	(1,255)	(2,567)
Interest paid		(544)	(175)	(497)
Payment of finance lease liabilities		(375)	(3)	(226)
Net cash generated from financing activities		11,044	77,065	75,208
Net increase/(decrease) in cash and cash equivalents		17,946	17,898	(667)
Cash and cash equivalents at the start of the period		3,928	4,595	4,595
Cash and cash equivalents at the end of the period		21,874	22,493	3,928

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The condensed consolidated interim financial statements ("interim financial statements") do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts for the 15 month period to 31 March 2010 were approved by the board of directors on 21 June 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain any emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The unaudited interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union. Comparatives for the 15 month period to 31 March 2010 have been extracted from the audited statutory accounts.

In July 2009, the Group changed its year end from 31 December to 31 March. Consequently, comparative figures are for the 9 months to 30 September 2009 and the 15 months to 31 March 2010.

2. Accounting policies

Except as described below, the accounting policies are consistent with those of the financial statements for the 15 month period to 31 March 2010:

Income tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Business combinations

IFRS 3 (revised) Business combinations has been adopted during the period. The main impact on these interim financial statements is that acquisition-related costs are expensed as opposed to being included in the cost of investment. In addition, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent consideration subsequently re-measured through the income statement as opposed to re-measurement against the cost of investment.

Acquisitions in prior periods continue to be accounted for under the original standard.

Revenue recognition

To take account of changes to commercial contracts with the mobile network operators, equipment sales are treated as a separate unit of accounting from provision of the mobile service contract. Consideration is allocated to each separate unit of accounting based on its relative fair value.

Cash flow statement

Interest paid has been reclassified from operating activities to financing activities in the cash flow statement to better reflect the borrowing facility which has been arranged in the period. Prior periods have been restated.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

Segment reporting

As described in the financial statements for the 15 months to 31 March 2010, the Group has changed its reporting segments to more closely align with its strategic objectives which has resulted in the reporting of segmental information by product group and channel to market product group. The new segments are network services, data solutions, mobile solutions and system services. The new channel segments are wholesale and mobile distribution.

Comparative figures have been restated.

3. Segment information

The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group board of directors. Operating segments are determined on the basis of the reports reviewed by the CODM.

The segments are based on product groups which service SME and mid-market customers as follows:

Network services – provision of fixed line voice services

Data solutions – provision of data services including broadband, leased lines and data hosting

Mobile solutions – provision of mobile telephony services

System services – sale, installation and maintenance of telephony systems

Collectively the above segments form the Retail division. In addition the Group operates two further channels to market:

Wholesale – provision of network services, data solutions and billing services to resellers

Mobile distribution – provision of mobile solutions via the dealer channel

The segment information for the 6 months to 30 September 2010 is as follows:

	Retail				Wholesale £'000	Mobile Distribution £'000	Continuing operations £'000
	Network Services £'000	Data Solutions £'000	Mobile Solutions £'000	System Services £'000			
Total segment revenue	49,152	18,195	11,542	11,442	12,830	17,967	121,128
Inter segment revenue	-	(403)	-	(470)	(282)	-	(1,155)
External revenue	49,152	17,792	11,542	10,972	12,548	17,967	119,973
Gross profit	20,787	8,802	3,164	7,538	2,694	3,243	46,228

The segment information for the 9 months to 30 September 2009 is as follows:

	Retail				Wholesale £'000	Mobile Distribution £'000	Continuing operations £'000
	Network Services £'000	Data Solutions £'000	Mobile Solutions £'000	System Services £'000			
Total segment revenue	20,458	2,213	1,931	2,066	2,831	1,549	31,048
Inter segment revenue	-	-	-	-	(163)	-	(163)
External revenue	20,458	2,213	1,931	2,066	2,668	1,549	30,885
Gross profit	7,686	1,544	354	1,131	545	292	11,552

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. Segment information (continued)

The segment information for the 15 months to 31 March 2010 is as follows:

	Retail				Wholesale £'000	Mobile Distribution £'000	Continuing operations £'000
	Network Services £'000	Data Solutions £'000	Mobile Solutions £'000	System Services £'000			
Total segment revenue	62,557	24,344	10,724	12,210	14,587	11,632	136,054
Inter segment revenue	-	-	-	(734)	(965)	-	(1,699)
External revenue	62,557	24,344	10,724	11,476	13,622	11,632	134,355
Gross profit	26,622	11,832	2,058	6,262	2,581	2,221	51,576

A reconciliation of the above analysis to loss from continuing operations before tax is provided below:

	6 months ended 30 September 2010 £'000	9 months ended 30 September 2009 £'000	15 months ended 31 March 2010 £'000
Gross profit per analysis	46,228	11,552	51,576
Operating costs	(54,558)	(15,460)	(69,099)
Net finance (costs)/income	(1,510)	1,818	1,346
Loss before tax from continuing operations	(9,840)	(2,090)	(16,177)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

4. Business combinations

On 22 April 2010 the Group acquired the entire issued share capital of Cole Robert & Co Limited ("CRC"). CRC is a wholesale telecoms and internet service provider, with the majority of the business being a white-label broadband offering, over a range of broadband networks.

On 12 May 2010 the Group acquired IP Professional Services Limited's 50% shareholding in IP Integration Network Services Limited, increasing the Group's shareholding in the company to 100%. IP Integration Network Services Limited was fully consolidated at 31 March 2010 as the Group had control over the operations of the company. Purchase consideration was £0.1 million in cash which gave rise to goodwill of £0.04 million (see note 9). Further analysis of the acquisition has not been provided below due to the non-material nature of the transaction.

On 10 June 2010 the Group acquired the entire issued share capital of Fone Logistics Limited ("FL"). FL is a provider of mobile handsets and airtime to the SME market through an independent dealer channel.

On 21 June 2010 the Group acquired the entire issued share capital of Murphx Innovative Solutions Limited ("Murphx"). Murphx provides a range of services to the channel including business broadband, virtual private networks, leased line and ethernet connectivity, co-location, IP transit and application services. Its products are aimed at internet service providers (ISPs), telecoms resellers and IT services organisations, who resell to SME and mid-market business customers.

The purchase consideration for each acquisition was as follows:

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Cash paid	1,640	3,659	4,800	10,099
Stamp duty	11	18	97	126
Contingent cash consideration	-	-	8,354	8,354
Deferred cash consideration	500	-	-	500
Purchase consideration	2,151	3,677	13,251	19,079

The contingent consideration is based on earnings before interest, tax, depreciation and amortisation of the business over a 2 year period from 1 July 2010. It is payable in 4 bi-annual instalments and has been discounted using the Group's weighted average cost of capital. There is no upper limit on the final contingent consideration and the floor on total consideration is £4.0 million.

The deferred consideration has been settled after the balance sheet date.

The carrying amount of assets and liabilities in the books of the acquiree were as follows :

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Property, plant and equipment	-	45	330	375
Inventories	-	140	-	140
Trade and other receivables	48	5,313	1,106	6,467
Cash and cash equivalents	247	304	705	1,256
Trade and other payables	(136)	(6,540)	(1,961)	(8,637)
Deferred tax liability	-	-	(26)	(26)
Total carrying amount	159	(738)	154	(425)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

4. Business combinations (continued)

The following fair value adjustments have been made:

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Intangible assets				
- Customer lists	2,318	-	9,845	12,163
	2,318	-	9,845	12,163
Deferred tax	(649)	-	(2,658)	(3,307)
Total fair value adjustments	1,669	-	7,187	8,856

The provisional fair values of the assets and liabilities and the associated goodwill arising from the acquisitions are as follows:

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Intangible assets	2,318	-	9,845	12,163
Property, plant and equipment	-	45	330	375
Inventories	-	140	-	140
Trade and other receivables	48	5,313	1,106	6,467
Cash and cash equivalents	247	304	705	1,256
Trade and other payables	(136)	(6,540)	(1,961)	(8,637)
Deferred tax liability	(649)	-	(2,684)	(3,333)
Net assets acquired	1,828	(738)	7,341	8,431
Goodwill	323	4,415	5,910	10,648
Purchase consideration	2,151	3,677	13,251	19,079

The goodwill is attributable to the cost synergies and cross-selling opportunities that are expected to be achieved from combining the acquired customer bases. The goodwill is not deductible for tax.

Included within trade and other receivables are trade debtors as follows:

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Gross contractual amounts receivable	41	1,271	652	1,964
Provision for non-collection	(5)	(502)	(51)	(558)
	36	769	601	1,406

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Purchase consideration settled in cash	1,651	3,677	4,897	10,225
Direct acquisition costs	73	90	175	338
Cash and cash equivalents in acquiree	(247)	(304)	(705)	(1,256)
Cash outflow	1,477	3,463	4,367	9,307

The direct acquisition costs have been reflected in the income statement as part of net exceptional operating costs (refer to note 6).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

4. Business combinations (continued)

The cash outflow from business combinations in the period can be reconciled to the cash flow statement as follows:

	£'000
Cash outflow from business combinations in the period noted above	9,307
Cash outflow from the acquisition of minority shareholding	64
In respect of prior period business combinations:	
Receipts from escrow accounts	(2,700)
Adjustments to consideration	(83)
Additional direct acquisition costs	47
<u>Direct acquisition costs from post balance sheet business combinations</u>	<u>170</u>
	6,805

From the date of acquisition to 30 September 2010, the acquired businesses contributed the following revenues, adjusted EBITDA and net losses:

	CRC £'000	FL £'000	Murphx £'000	Total £'000
Revenue	1,012	8,281	3,554	12,847
Adjusted EBITDA	191	498	189	878
Net profit/(loss) before tax	(47)	(145)	(372)	(564)

If the acquisitions had occurred on 1 April 2010, the Group's revenue, adjusted EBITDA and loss for the 6 month period would have been as follows:

	£'000
Revenue	132,010
Adjusted EBITDA	16,801
Loss before tax	(10,366)

Business combinations after the balance sheet date

On 10 November 2010 the Group announced a recommended cash offer to acquire 100% of the share capital of SpiriTel plc ("SpiriTel") for £27.3 million and the assumption by the Group of £6.1 million of bank debt. At this date 90.9% of the share capital was acquired.

SpiriTel provides a fully integrated range of voice and data services directly to business customers together with infrastructure and wholesale voice services. Net assets acquired were £8.2 million resulting in the recognition of provisional goodwill and customer relationship intangible assets of £25.2 million. The unaudited management accounts for SpiriTel for the 5 months to 30 September 2010 showed revenues of £15.4 million, gross profit of £6.4 million and an operating profit of £1.1 million.

On 1 December 2010 the Group acquired the entire issued share capital of NEG MBO Two Limited ("NEG") for an initial cash consideration of £23.5 million. The consideration is subject to a working capital adjustment.

NEG provides network services, telephony hardware, installation and maintenance support to over 2,000 customers, 1,200 of which are General Practitioners. Net liabilities acquired were £0.4 million resulting in the recognition of provisional goodwill and customer relationship intangible assets of £23.9 million. The unaudited management accounts for NEG for the 10 months to 31 October 2010 showed revenues of £11.2 million, gross profit of £5.1 million and an operating profit of £3.3 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

5. Disposals and discontinued operations

On 17 June 2010 the Group sold its WiMAX spectrum licences to UK Broadband Limited for cash consideration of £12.5 million.

The business continues to trade under a licence given by UK Broadband Limited although it is intended that trade will cease around the financial year end.

At 31 March 2010 the Group's investment in Freedom4 Limited, which held the licences via its subsidiary undertakings, was classified as held for sale. The investment has been fully impaired in the period under review which has given rise to a profit on disposal of the licences as follows:

	£'000
Proceeds	12,500
Less:	
Costs associated with the disposal	(67)
Carrying value at 31 March 2010	(4,891)
Intercompany funding to 30 September 2010	(826)
	6,716

On 27 April 2010 the Group disposed of its 50% shareholding in Network Business Call Limited to Network Voice and Data Limited and Network Communications Group Limited Pension Trust for cash consideration of £0.1 million.

On 10 May 2010 the Group disposed of its 50% shareholding in Network Billing Services Limited to Blizzard Telecom Limited for cash consideration of £0.2 million.

The two disposals resulted in £0.3 million profit on disposal (see note 6). Cash inflow net of disposal costs and cash disposed of was £0.1 million.

6. Net exceptional operating costs/(income)

	6 months ended 30 September 2010 £'000	9 months ended 30 September 2009 £'000	15 months ended 31 March 2010 £'000
Employee related restructuring costs	800	-	5,522
Other restructuring costs	3,392	4,888	6,105
Direct costs arising from business combinations	509	-	-
Profit on disposal of property, plant and equipment	(16)	-	-
Profit on disposal of subsidiary undertakings (note 5)	(268)	-	-
Negative goodwill	96	(5,452)	(5,791)
Net exceptional operating costs/(income)	4,513	(564)	5,836

The direct costs arising from business combinations includes £0.3 million in respect of current period acquisitions (see note 4) and £0.2 million for the SpiriTel acquisition which was completed after the balance sheet date.

The reversal of the negative goodwill arose from an adjustment to the consideration from a business combination in the prior period.

Included in other restructuring costs is an onerous lease provision as detailed in note 13.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

7. Earnings / (loss) per share

Basic earnings per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The calculation of the statutory and adjusted basic and diluted earnings per share is as follows:

	6 months ended 30 September 2010	9 months ended 30 September 2009	15 months ended 31 March 2010
Number of shares	Number million	Number million	Number million
Weighted average number of ordinary shares for the purposes of basic earnings per share	255	107	166
Dilution impact of share warrants and options	2	1	1
Diluted number of ordinary shares for the purpose of the diluted earnings per share	257	108	167
Earnings	£'000	£'000	£'000
Loss after tax from continuing operations	(5,762)	(855)	(11,173)
Minority interest	84	-	150
Loss for the period attributable to equity holders of the parent in respect of continuing operations	(5,846)	(855)	(11,323)
(Loss)/profit after tax from discontinued operations	6,716	(2,620)	(2,855)
Minority interest	-	-	-
Profit/(loss) for the period attributable to equity holders of the parent in respect of discontinued operations	6,716	(2,620)	(2,855)
Basic (loss)/earnings per share :	pence	pence	pence
From continuing operations	(2.29)	(0.80)	(6.82)
From discontinued operations	2.63	(2.45)	(1.72)
	0.34	(3.25)	(8.54)
Diluted (loss)/earnings per share :			
From continuing operations	(2.29)	(0.80)	(6.82)
From discontinued operations	2.61	(2.45)	(1.72)
	0.32	(3.25)	(8.54)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

7. Earnings / (loss) per share (continued)

The adjusted basic and diluted (loss)/earnings per share from continuing operations is calculated on the same share base after taking into account the adjustments as described below:

	6 months ended 30 September 2010 £'000	Restated 9 months ended 30 September 2009 £'000	15 months ended 31 March 2010 £'000
Adjusted EPS			
Loss for the period attributable to equity holders of the parent in respect of continuing operations	(5,846)	(855)	(11,323)
Add:-			
Net exceptional operating income / (costs)	4,513	(564)	5,836
Share based payment costs	310	-	211
Amortisation of intangibles (excluding software)	17,702	5,163	19,906
Income tax (charge)/credit attributable to minority interests	(57)	-	24
Less:-			
Income tax credit	(4,078)	(1,537)	(5,004)
Adjusted earnings before tax	12,544	2,207	9,650
Tax on the above	(1,670)	(815)	(2,847)
Adjusted earnings for the period after tax	10,874	1,392	6,803
	pence	pence	pence
Basic earnings per share based on adjusted earnings	4.26	1.30	4.10
Diluted earnings per share based on adjusted earnings	4.23	1.29	4.07

The adjusted EPS calculation in the last interim report for the 9 months ended 30 September 2009 excluded finance income and costs. The figures have been restated to provide a consistent basis. For periods where the Group was loss-making, dilution has no effect on loss per share.

8. Income tax

The taxation credit for the 6 months ended 30 September 2010 comprises corporation tax on profits of the period based on the expected effective tax rate for the full financial year, together with an adjustment to the corporation tax liability in respect of prior periods and a deferred tax credit, relating principally to the amortisation of intangible assets.

The taxation credit also includes a deferred tax credit relating to the restatement of opening net deferred tax liabilities following a reduction in the future rate of UK corporation tax to 27%.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

9. Goodwill

Cost and net book amount	Note	£'000
At 1 January 2009		-
Business combinations		50,183
At 30 September 2009		50,183
Business combinations		12,102
At 31 March 2010		62,285
Business combinations	4	10,648
Acquisition of minority interest	4	40
Adjustments in respect of business combinations during the 15 months to 31 March 2010 :		
- Reduction in cash consideration		(83)
- Finalisation of fair value adjustments		344
		73,234

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

10. Other intangible assets

	Customer lists £'000	Computer software £'000	Supplier relationships £'000	Licences £'000	Total £'000
Cost					
At 1 January 2009	85	-	-	-	85
Acquisitions through business combinations	154,633	1,672	3,570	-	159,875
Transfer to held for sale	(85)	-	-	-	(85)
At 30 September 2009	154,633	1,672	3,570	-	159,875
At 1 October 2009	154,633	1,672	3,570	-	159,875
Acquisitions through business combinations	26,392	674	-	69	27,135
Additions	1,079	386	-	-	1,465
At 31 March 2010	182,104	2,732	3,570	69	188,475
At 1 April 2010	182,104	2,732	3,570	69	188,475
Acquisitions through business combinations (note 4)	12,163	-	-	-	12,163
Adjustment to prior period business combinations	-	(23)	-	-	(23)
Additions	9,649	310	-	-	9,959
At 30 September 2010	203,916	3,019	3,570	69	210,574
Amortisation and impairment					
At 1 January 2009	21	-	-	-	21
Amortisation for the period	4,817	65	346	-	5,228
Transfer to held for sale	(42)	-	-	-	(42)
At 30 September 2009	4,796	65	346	-	5,207
At 1 October 2009	4,796	65	346	-	5,207
Amortisation for the period	13,874	535	892	11	15,312
Disposal of subsidiaries	(12)	-	-	-	(12)
At 31 March 2010	18,658	600	1,238	11	20,507
At 1 April 2010	18,658	600	1,238	11	20,507
Amortisation for the period	16,759	482	893	13	18,147
At 30 September 2010	35,417	1,082	2,131	24	38,654
Net book amount					
At 1 January 2009	64	-	-	-	64
At 30 September 2009	149,837	1,607	3,224	-	154,668
At 31 March 2010	163,446	2,132	2,332	58	167,968
At 30 September 2010	168,499	1,937	1,439	45	171,920

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

11. Trade and other payables

	30 September 2010 £'000	30 September 2009 £'000	31 March 2010 £'000
Trade payables	26,910	19,088	27,407
Accruals and deferred income	34,725	29,905	30,721
Social security and other taxes	4,991	2,948	2,907
Contingent consideration	9,984	-	-
Deferred consideration	4,464	1,187	695
Other payables	1,801	1,374	1,975
	82,875	54,502	63,705

12. Borrowings

	30 September 2010 £'000	30 September 2009 £'000	31 March 2010 £'000
Non-current			
Bank borrowings	23,379	7,427	-
Finance lease liabilities	206	381	451
	23,585	7,808	451
Current			
Bank overdrafts	-	-	16,106
Bank borrowings	-	4,964	11,139
Finance lease liabilities	499	353	626
	499	5,317	27,871

During the period the Group entered into a syndicated sterling, floating rate revolving credit facility for £75,000,000 with Yorkshire Bank, HSBC Bank plc and Lloyds TSB Bank plc which expires 30 June 2013. The facility is secured by way of a charge over shares in the Group's subsidiary undertakings. This facility has principally been arranged to refinance the existing indebtedness of the Group and to help fund investment in new acquisitions. Interest on floating rate borrowings is based on BBA LIBOR.

Further protection from UK sterling interest rate movements on debt is provided by interest rate cap agreements. At 31 September 2010 the Group had interest rate caps in place on notional sterling amounts equal to £20,000,000. These cap agreements effectively limit the BBA LIBOR element of the Group's liabilities to 2.5%.

All amounts are denominated in sterling.

13. Provisions

An onerous lease provision has been created in the period for £1.9 million. The provision relates to unoccupied space at the Prudhoe site which has arisen from the Group's reorganisation programme. The cost has been included within net exceptional operating costs within other restructuring costs (refer to note 6).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

14. Other non-current liabilities

	30 September 2010 £'000	30 September 2009 £'000	31 March 2010 £'000
Contingent consideration	1,172	-	2,600
Deferred consideration	-	-	525
Deferred income	769	-	1,038
Other payables	-	210	600
	1,941	210	4,763

15. Share capital

	Number of shares	Par value	Share capital £'000	Share premium £'000	Merger reserve £'000
At 1 January 2009	1,076,006,457	0.1p	1,076	8,286	-
Cancellation of treasury shares	(41,138,559)	0.1p	(41)	(696)	-
Share consolidation	(983,124,503)	2.0p	-	-	-
Share issue - acquisitions	100,000,000	2.0p	2,000	-	83,500
Share issue - capital raise	103,750,000	2.0p	2,075	80,925	-
Costs associated with share issue	-	-	-	(4,502)	-
At 30 September 2009	255,493,395	2.0p	5,110	84,013	83,500
At 1 October 2009	255,493,395	2.0p	5,110	84,013	83,500
Share issue to the employee benefit trust	7,550,000	2.0p	151	2,730	-
At 31 March 2010	263,043,395	2.0p	5,261	86,743	83,500
At 1 April 2010	263,043,395	2.0p	5,261	86,743	83,500
Share issue to the employee benefit trust	1,662,500	2.0p	33	1,297	-
At 30 September 2010	264,705,895	2.0p	5,294	88,040	83,500

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

16. Cash flow statement

	6 months ended 30 September 2010 £'000	Restated 9 months ended 30 September 2009 £'000	Restated 15 months ended 31 March 2010 £'000
Note			
Profit/(loss) for the period	954	(3,479)	(14,028)
Loss on disposal of discontinued operations	-	-	52
Profit on disposal of assets held by discontinued operations/joint venture	(6,716)	-	-
Income tax credit	(4,078)	(1,231)	(5,004)
Loss arising on joint venture	-	12	12
Interest receivable	(41)	(2,083)	(2,117)
Interest payable	1,551	269	776
Operating loss	(8,330)	(6,512)	(20,309)
Adjustments to operating cash flows:			
Depreciation charge	1,436	664	1,964
Share of loss of joint venture	-	2,372	2,468
Direct acquisition costs	6 543	-	-
Amortisation of intangibles	18,147	5,249	20,540
Negative goodwill	6 96	(5,452)	(5,791)
Profit on disposal of subsidiary undertakings	(268)	-	-
Profit on sale of fixed assets	6 (16)	-	-
Share based payment costs	292	-	211
Operating cash flows before movements in working capital	11,900	(3,679)	(917)
(Increase)/decrease in inventories	(175)	(63)	598
Decrease/(increase) in receivables	1,031	(5,779)	(2,992)
(Decrease)/increase in payables	(3,841)	5,760	2,321
Increase/(decrease) in provisions	1,565	(231)	(579)
Cash generated/(used) from operations	10,480	(3,992)	(1,569)
Interest element of finance lease repayments	(57)	(10)	(50)
Income taxes (paid)/received	(199)	-	20
Net cash generated/(used) from operating activities	10,224	(4,002)	(1,599)