

Company Number 05259846

Report of the Directors and
Financial Statements for the
Year Ended 30 September 2010
for
Pinnacle Telecom Group plc

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PINNACLE TELECOM GROUP PLC
REPORT AND FINANCIAL STATEMENTS 30 SEPTEMBER 2010
COMPANY NUMBER. 05259846

Pinnacle Telecom Group plc is a value added, solutions based provider of integrated telecommunications services including IP and cloud solutions. It focuses on the SME market across the UK, where it provides a wide range of communications solutions including telecommunication calls, access and consultancy, IT support, mobile solutions both voice and data and hosted broadband voice services.

Pinnacle's strategy is to be a SME focused, value added, solutions based provider of converged communications services, driven by leveraging organic opportunities as well as through targeted acquisitions.

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IBC	Directors, Secretary and Advisers

HIGHLIGHTS

Financial benchmarks

- Turnover more than doubled, up 107% to £6,608,533, ahead of expectations, compared to £3,192,222 last year
- Gross profit more than doubled, up 111% to £2,089,457, compared to £991,169 last year
- Positive EBITDA ⁽¹⁾ of £149,378 for the year compared to an EBITDA loss of £499,429 last year
- Maiden operating profit ⁽²⁾ for the full year of £78,647 compared to a loss of £582,816 last year
- The loss retained for the full year ⁽³⁾ after all costs, reduced by £626,324, down 70% to £270,739 compared to £897,063 in the previous year

Acquisitions

- All share acquisition of Solwise Telephony Limited and its wholly owned subsidiary Sipswitch Limited completed on 13 January 2010 for an initial consideration of £180,957 in shares plus the assumption of debt of £23,958 also satisfied in shares

Balance sheet highlights

- Cash at the year end amounted to £697,189 compared to the previous year of £586,222, a 19% increase
- A placing on 22 September 2010 by way of an issue of 128,571,429 new Ordinary Shares at 0.35p per share, raised £450,000. The placing was at a premium of approximately 18.64% over the closing mid-market price of 0.295p on 21 September 2010
- Group net assets increased to £1,319,743 (2009: £921,645)

Reduction in group subsidiary operating companies

- During the year, the group completed a reduction in the number of operating group subsidiary entities, which had expanded following a series of acquisitions over the years, and there are now only three main operating units. We expect to see some modest reductions in administration costs in the future as a result of the consolidation.

BBC high-profile contracts

- Delivering certain high-profile voice and data requirements of the BBC has been a significant success this year. We expect to be able to service high-profile contracts of this nature again in 2011.

Notes

- 1 EBITDA is defined as Earnings before interest, taxation, depreciation, amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan
- 2 Operating profit is measured before amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan
- 3 Loss for the year is measured after all costs, including the costs of discontinued operations relating to previous years

CHAIRMAN'S STATEMENT

"It has been a tough year for the UK economy, but it has been a rewarding and successful year for Pinnacle."

Bill Allan, Chairman

This has been my first year as your Chairman. It has been a tough year for the UK economy, but it has been a rewarding and successful year for Pinnacle. Over the year your company has continued to improve its financial and operational performance from organic growth and a successful acquisition strategy.

The acquisition of Solwise Telephony Limited and its subsidiary Sipswitch Limited, in January 2010, have been successfully integrated. Back office systems and processes have been simplified, with billing rationalised into a single platform. The legal organisational structures from the various entities acquired or merged into Pinnacle over the years have also been rationalised, simplifying accounting and administration. For a small company, these were two major accomplishments this year that absorbed a considerable amount of management time and focus. Nevertheless, they provide a more robust and efficient operating platform for future growth and expansion.

In addition to the above, Pinnacle has continued to win new contracts and seek new areas for organic growth. Your company's success in providing bespoke solutions to its customers is an area we seek to leverage this year. The short-term contracts with the BBC mentioned at the half-year resulted in further business including supporting the telecommunications for Pope Benedict XVI's visit to the U.K. These were high profile events that demonstrated confidence in Pinnacle's systems and people.

The successful share placing in September 2010 has improved your company's financial standing and working capital needs for organic growth. As a Board we are also conscious that value enhancing opportunities for growth by acquisition involve considerable resource and time commitments. However, we will continue to be prudent as we seek new growth to enhance your company's capability as a provider of IP and bespoke services and solutions into the UK SME market.

Finally, my thanks to Alan Bonner and all his staff for their enthusiasm and hard work this year. Further detail and comment on the results for the full year are contained in the Chief Executive's Review. I look forward to the year ahead.

Bill Allan
CHAIRMAN
21 February 2011

**"Pinnacle
has
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win new
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organic
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CHIEF EXECUTIVE'S REVIEW

"2010 has been a very successful year."

"We have delivered record results for the Group which has included a year of triple-digit growth in both turnover and gross profit."

Alan Bonner, Chief Executive Officer

Introduction

2010 has been a very successful year, as we have returned a maiden operating profit of £78,647 compared to a 2009 operating loss of £582,816. This result is measured before amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan. After these adjustments, which are mainly non-cash based and a requirement of International Financial Reporting Standards (IFRS), the Group returned an operating loss of £236,572 (2009 loss £890,856). We continue to view IFRS adjustments as technical, and they have little bearing on cash. Accordingly, we believe that the best measure of operating profit or loss should be before striking these costs.

Adjusted EBITDA (Earnings before interest, taxation, depreciation, amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan) is an important performance measurement, and we regard EBITDA as a key performance indicator in terms of our operating result. Although there is no requirement to disclose EBITDA, we believe that, because of its importance, it should be part of our disclosure.

IFRS accounting requires us to carefully consider the carrying value of our intangible assets and forces amortisation of these assets. Acquisitions also require us to consider whether the goodwill that we have acquired (basically the difference between the net assets of the business acquired and the price paid) should be recognised and allocated in our financial statements as other intangible assets, such as a customer base, billing system and so on which would not necessarily be recognised in the financial statements of the acquired business. For the first time, we are required to expense the costs of acquisitions, and £18,216 has been expensed in the year and shown as an exceptional item in the income statement. Overall, the loss carried forward for the year was £261,239 compared to a loss of £897,063 in 2009.

These are record results for the Group which has included a year of triple-digit growth in both turnover and gross profit. 2010 has also been a year of consolidation. For the second year running, turnover more than doubled, up 107% to £6,608,533. We have managed and enhanced our cash resources whilst remaining free of bank debt.

"For the second year running, turnover more than doubled, up 107%."

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

With a view to streamlining our operations, we have taken time to considerably reduce the number of operating subsidiaries and have successfully closed some of our office locations, which has enabled us to centralise a number of our core functions into new larger offices on the outskirts of Northampton

As we continue to move our business away from traditional telephony onto next generation IP telephony, the acquisition of Solwise Telephony Limited and its subsidiary Sipswitch Limited in January 2010 was of major importance to the group. Sipswitch has developed its own proprietary next generation VoIP system, which we have continued to develop in-house. Our balance sheet shows that the carrying value of our investment in this technology to 30 September 2010 amounted to £195,834. The Sipswitch acquisition was timely as it was fundamental to Pinnacle being awarded, and successfully delivering, voice and data services to a significant number of the UK's biggest high-profile events, which included voice and data networks for the BBC's coverage of the UK General Election and the BBC's coverage of the Pope's first ever State visit. We expect to be able to win high-profile events of this nature again in 2011. As we focus our sales efforts on the roll out of cloud based IP solutions, we also look forward in 2011 to further deployments by leveraging the intellectual property that is embedded in our award winning VoIP platform.

On 22 September 2010, I was pleased to welcome Dr Tom Black as a shareholder, as a result of an issue of new ordinary shares. The Company raised £450,000 through the issue of 128,571,429 new Ordinary Shares at 0.35p per share. Tom, the former CEO of Detica plc, a major provider of security, intelligence and analysis solutions and current Executive Chairman of AIM listed Digital Barriers plc, subscribed personally for 57,142,857 shares in the placing, representing 3.06% of the enlarged share capital of the Company. The Board and the senior management team also subscribed for new shares in the placing. The placing price represented a premium of approximately 18.64% over the mid-market closing price of 0.295p on 21 September 2010.

The consolidation within our market is moving at a rapid pace and we aim to search out earning-enhancing bolt-on acquisitions, with a focus on delivering cloud based IP solutions. I believe our actions this year will provide us with a solid foundation on which we can build.

Results

Compared against our 2009 results, our 2010 performance shows a significant turnaround.

- **Turnover**

For the second year running, turnover more than doubled over the year, an increase of 107% from £3,192,222 in 2009 to £6,608,533 in 2010. Approximately 81% (2009: 88%) of turnover is recurring income.

- **EBITDA (Earnings before interest, taxation, depreciation, amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan)**

We regard EBITDA, as defined, as a key performance indicator and a figure that the Board considers on a regular basis. For 2010, we achieved positive annual EBITDA for the first time of £158,878 which compares very favourably with the 2009 figure which stood at negative £499,429. Importantly, EBITDA has remained positive throughout the year, representing a significant turnaround and a milestone in the history of the group.

- **Gross Profit**

The overall gross profit for the full year was £2,089,457 (2009: £991,169) representing a gross profit to sales percentage of 31.6% (2009: 31.0%), a pleasing increase. Delivering a complex IP based solution, where we can add significant value to the customer, can deliver gross margins in excess of 50%. This complex area is now the focus of our business, as we see significant expansion opportunities, not just in the SME market but also in multi-sited smaller corporates, where significant cost savings are achievable compared to traditional telecom deployments.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

- **Operating Profit (before amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan)**

We have achieved a maiden operating profit, as defined, of £78,647 in the full year compared to an operating loss of £582,816 in 2009. This has been achieved through the results from acquisitions and from organic growth coupled with tight control of the operating costs of the business.

- **Loss for the year**

The overall loss for the year, after all costs, reduced by £635,824, down 71% to £261,239 compared to £897,063 in the previous year, a significant reduction.

- **Debt**

The group has no debt other than a loan note which is carried at fair value on the balance sheet of £133,467.

- **Cash**

At the year end the group had £697,189 (2009: £586,222) of cash available to fund working capital as the business continues to grow. The year-end figure has been helped by the share issue noted above and the micro management of cash during the year, and particularly at the year end. The cash balances remain a key performance indicator of the Board.

- **Administration Expenses**

Our administration expenses remain carefully controlled. Acquisitions, however, tend to mask the trend. For 2010 the administration expenses were £2,010,810 (2009: £1,573,985).

- **Balance Sheet**

At 30 September 2010, the group had net assets of £1,329,243 (2009: £921,645). Included in this figure are intangible assets, being the written down value of customer bases and maintenance contracts acquired, of £859,217 (2009: £864,123). Also included, as a result of the acquisition of Sipswitch Limited, are capitalised development costs of £195,834, being the costs less depreciation to 30 September 2010 of developing the VoIP platform now at the heart of the group's strategy. This is being depreciated over a period of 5 years.

The group keeps tight control over receivables and at the year end they represented 25 days of turnover (2009: 56 days). Considering the current economic climate, we are very satisfied with this result. 65% of our customers pay by direct debit which helps the profile.

Strategy

The Group has continued its successful strategy to seek out well-priced and timely acquisitions, deliver organic growth and develop a wide range of next generation communications services, where the emphasis is on IP based cloud technologies. We will deliver to our customers, solutions that improve productivity, lower costs and save money, particularly for businesses that have more than one location.

Future Developments

We are undertaking a number of initiatives in 2011.

- We continue the migration of all group customers onto a single billing system, which we expect to complete before the end of the first half of 2011.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

- We plan to build an online customer-ordering portal that will allow customers to order and provision new services over the Internet
- We aim to roll out a remote on-line backup service for businesses, which will provide customers with an online system for backing up, storing and restoring computer files
- We expect to complete a major overhaul of our websites by the end of the 2011 half-year

Acquisitions

On 13 January 2010, the Company acquired the entire issued share capital of Solwise Telephony Limited, and its wholly owned subsidiary Sipswitch Limited. The initial consideration was £204,915, satisfied by the issue of 35,950,000 ordinary shares in Pinnacle Telecom Group plc at a price of 0.57 pence per share.

The total consideration was apportioned to initial consideration, loan shares and contingent consideration as follows:

- 31,746,843 of ordinary shares were issued as initial consideration
- A further 4,203,157 ordinary shares were issued in connection with loans owed by Solwise to certain vendors, amounting to £23,958 in aggregate. The loans were assigned from Solwise to the Company and were capitalised through the issue to the lenders of ordinary shares in the capital of the Company.

The acquisition agreement allows for contingent consideration with earn out provisions to be awarded, based on earnings before interest and taxation ("EBIT") for the years ending 30 September 2010 and 30 September 2011. For the year ending 2010, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £40,000. For the year ending 2011, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £60,000. In accordance with IFRS3, we have accrued additional consideration of £80,000 in the financial statements, when calculating the intangible asset on acquisition. The total contingent consideration cannot exceed £295,085 in total over the two year end periods.

At 30 September 2010, a provisional EBIT calculation was performed for Solwise which showed that potentially up to £30,000 of new ordinary shares may be issued to the vendors, represented by a price per share equal to the middle market closing price for an ordinary share in the Company on the day of the announcement of the preliminary results for the year ended 30 September 2010. The final EBIT calculation for the year is subject to approval.

Organic Growth

Once again, we have successfully delivered organic growth during the year, one notable contract was 30 million voice call minutes per annum for Grass Roots plc, a marketing, research and HR services business, operating in 16 countries and employing over 1,000 people. Won against much larger competitors, this deal demonstrates our capability to handle larger and more complex contracts.

Contract Wins

We were delighted to win contracts to deliver voice and data connectivity for many of the UK's largest high-profile, short term events, which further demonstrates the group's ability in this specialist area, and shows good continuation of Pinnacle's skill to offer bespoke capability and build new sources of revenue growth.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Some of the successfully completed high-profile events are listed below

Alton Towers - Pink Concert	Chelsea Flower Show	Millennium Stadium - Various
BBC Question Time – Various	Donington Download Festival	Milton Keynes Bowl - Various
BBC UK General Election	Edinburgh Festival - Various	Notting Hill Carnival
BBC Home Broadcast - Chris Evans	Evolution Festival, Gateshead	Religious Broadcasts - Various
BBC Radio1 Big Weekend	Finsbury Park - concert	Reading Festival
BBC Radio1 Chris Moyles OB	Glastonbury Festival	Stadium of Light Concerts
BBC Lib-Dem Party Conference	Gloucester Cricket Ground	Shambala Festival
BBC TUC Conference	Hampden Park –Various concerts	Start Project, London
BBC Great North Run	Harvest at Jimmy's Festival	Swansea Proms in the park
BBC Radio 1Xtra Live	Holland Park Opera	T4 Festival
BBC & others Pope's State Visit	Hyde Park Festival	Theatre Royal, Drury Lane
Ben and Jerry's Festival	Latitude Festival	T-in-the-Park Festival
Birmingham Symphony Orchestra	Leeds Festival	V Festival Hylands Park
Bournemouth Air Show	London Eye New Year Fireworks	V Festival Weston Park

Operations

During the year, the group completed a reduction in the number of operating companies, which had expanded following a series of acquisitions over the years. There are now three main operating units. We expect to see some modest reductions in administration costs in the future as a result of the group structure consolidation.

We also managed to successfully close our office locations in Edinburgh, Hinckley, and central Northampton, which has allowed us to centralise a number of our core functions into new larger offices on the outskirts of Northampton.

We have successfully migrated customers' analogue fixed-lines and ISDN channels onto a new BT WLR3 service. Our systems connect to the BT WLR3 gateway, which gives us access to a wide range of products from BT Openreach, including resilience solutions and temporary lines.

As a result of the acquisition of Solwise, we acquired a data centre in Brighton, which has allowed us to better utilise our connectivity between our data centre in Glasgow and our network located in Telehouse North in London. Our network now has resilience in Glasgow, London and Brighton.

Summary

We have made excellent progress this year, diligently managing our cash resources, strengthening our balance sheet and remaining free of bank debt. We assiduously centralised our operations into Northampton and successfully delivered voice and data networks for some of the UK's largest high-profile events, including the UK General Election for the BBC. We have delivered triple-digit growth in turnover and gross margin, produced our maiden operating profit, and delivered positive EBITDA. Notwithstanding the difficulties of the economic climate, we aim to search out earning-enhancing bolt-on acquisitions, with a focus on delivering cloud based IP solutions, and we look forward to moving the business forward during 2011.

Alan J Bonner

CHIEF EXECUTIVE OFFICER

21 February 2011

CORPORATE GOVERNANCE

As the company is listed on AIM it is not required to comply with the provisions of the UK Corporate Governance Code, which is mandatory for companies with a primary listing on the main market of the London Stock Exchange. This code, among other things, sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Although the company is not required to comply with the provisions of the Code, the board is committed to ensuring that proper standards of corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the Group.

Your board considers that at this stage in the Group's development, the expense of full compliance with the UK Corporate Governance Code is not appropriate.

Directors and the board

The board directs the Group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures. Where it deems it necessary the board requests reports on specific areas outwith the normal reporting regime. All directors have access to advice from the company secretary and independent professionals at the company's expense. Training is available for new and other directors as necessary.

The board at present comprises one executive and two non-executive directors. The size of the board is considered to be appropriate to the current size and character of the Group. The non-executive directors are independent of management and any business or other relationships which could interfere with the exercise of their independent judgment. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

The board has established two committees, the audit committee and the remuneration committee. Membership of both the audit committee and the remuneration committee is exclusively non-executive. A nominations committee will be established should it be required. Bill Allan is chairman of the remuneration committee and John Anderson of the audit committee.

A separate report on directors' remuneration is set out on pages 10 to 12, this is to be approved by the shareholders at the annual general meeting.

Under the company's articles of association, the nearest number to one third of the board shall retire each year by rotation.

Accountability and audit

The board considers that the annual report presents a balanced and understandable assessment of the Group's performance and prospects. The audit committee has written terms of reference setting out its authority and duties and has meetings, at which the executive director also has the right to attend, at least two times a year with the external auditors. The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The committee is satisfied that Grant Thornton UK LLP are independent.

Risk management

The board has established a risk register which is formally reviewed during each calendar year.

CORPORATE GOVERNANCE (CONTINUED)

Attendance at Board and Committee Meetings

The following table summarises the number of board and committee meetings held during the year and the attendance record of individual directors

	Board		Audit		Remuneration	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
W Allan	6	6	1	1	1	1
J C Anderson	11	11	1	1	1	1
A Bonner	11	11	-	-	-	-
G J Duncan	5	5	-	-	-	-

Going concern

On the basis of a review of cash balances, banking facilities and the ability to call on certain shareholders to subscribe to additional loan notes, together with a review of forecasts and sensitised cash flows, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the financial statements. The Directors recognise that the Group must maintain monthly profitability for the business to cover its cost base and remain within its finance facilities.

Internal financial control

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group. The key procedures that have been established in respect of internal financial control are as follows:

- **Financial reporting** there is in place a comprehensive system of financial reporting based on the annual budget which the board approves. The results for the Group as a whole and each business segment are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- **Investment appraisal** applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

Relations with shareholders

The company values the views of its shareholders and recognises their interest in the Group's strategy and performance, board membership and quality of management.

The annual general meeting is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The chairmen of the audit and remuneration committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the annual report and accounts and the report on directors' remuneration. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. The company uses its website, www.pinnacletelecomgroup.co.uk, as a means of providing information to shareholders and other related parties. The company's annual report and accounts, interim reports and other relevant announcements are maintained on the website.

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

The remuneration committee has given consideration to the UK Corporate Governance Code issued by the Financial Reporting Council in framing its remuneration policy. As the company is listed on AIM, it is not required to comply with the provisions of Section 412 of the Companies Act 2006. The following disclosures are voluntary as is resolution 2 to approve this report at the annual general meeting.

Remuneration committee

The remuneration committee determines, on behalf of the board, the Group's policy for executive remuneration and the individual remuneration packages for the executive director. In setting the Group's remuneration policy, the remuneration committee considers a number of factors, including the following:

- salaries and benefits available to executive directors of comparable companies,
- the need to attract and retain executives of an appropriate calibre, and
- the continued commitment of executives to the Group's success through appropriate incentive schemes.

The committee meets at least once a year.

Remuneration of executive director

The remuneration package of the only executive director comprises the following elements:

- **Base salary**

The remuneration committee sets the base salary to reflect responsibilities and the skill, knowledge and experience of the individual. The executive director does not receive a director's fee.

- **Bonus scheme**

The executive director is eligible to receive a bonus on top of his basic salary dependent on individual and Group performance at the discretion of the remuneration committee. Performance conditions are set to ensure they are relevant and stretching.

- **Car allowance**

The executive director is entitled to a car allowance.

- **Pensions**

There are no pension provisions for the executive director.

- **Share options**

The executive director is entitled to participate in share option schemes.

- **Other benefits**

The executive director receives private medical insurance.

The executive director is engaged under a service contract which requires a notice period of 12 months.

Remuneration of non-executive directors

The fees paid to the non-executive directors are determined by the board. They are not entitled to receive any bonus or other benefits. Non-executive directors' letters of appointment are on a 3 month rolling basis.

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION (CONTINUED)

Directors' remuneration

Details of individual directors' emoluments for the year (excluding employers national insurance contributions) are as follows

	Salary and fees paid or receivable	Bonus paid or receivable	Pension contributions	Other benefits	2010 total	2009 total
	£	£	£	£	£	£
Non- Executive						
W Allan (1)	18,000	-	-	-	18,000	-
J C Anderson	10,000	-	-	-	10,000	10,000
G J Duncan (2)	22,032	-	-	435	22,467	35,869
Executive						
A Bonner	85,800	49,200	-	8,169	143,169	126,927
Totals	135,832	49,200	-	8,604	193,636	172,796

Notes.

- 1) William Allan was appointed to the board as non-executive chairman on 29 March 2010
- 2) Graham J Duncan ceased to be a director on 29 March 2010

Darron Giddens, a Director of the Company's subsidiaries received salary and fees of £66,667 during the year (2009 £28,888) Included in "Other benefits", above, are the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors as follows

	2010 £	2009 £
Name of Director		
G J Duncan (1)	435	869
A J Bonner	7,512	5,368
Total	7,947	6,237

Note.

- 1) Graham J Duncan ceased to be a director on 29 March 2010

Directors' interests in shares

The interests of the Directors in the ordinary shares of the Company at 30 September 2010 together with their interests at 1 October 2009 were as follows

	2010 £	2009 £
Name of Director		
W Allan	5,714,286	-
A J Bonner	187,076,972	172,791,257
J C Anderson	1,428,571	-

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION (CONTINUED)

Directors' interests in loan notes

The interests of the Directors in the loan notes of the Company, referred to in note 16, at 30 September 2010 together with their interests at 1 October 2009 were as follows

	2010 £	2009 £
Name of Director		
A J Bonner	25,000	25,000
J C Anderson	5,000	5,000

Directors' interests in share options

The interests of the current Directors in options over the ordinary shares of the Company at 30 September 2010 together with their interests at 1 October 2009 (or date of appointment if later) were as follows

	1 October 2009	Granted	Lapsed	30 September 2010	Exercise Price	Date when Exercisable	Expiry date
A J Bonner	54,545,455	-	-	54,545,455	0 1375p	01-Jul-10	01-Jul-18
A J Bonner	15,000,000	-	-	15,000,000	0 3000p	09-Jul-11	09-Jul-19

Two Directors of the Company's subsidiaries have been granted options over the shares of the Company as follows

	1 October 2009	Granted	Lapsed	30 September 2010	Exercise Price	Date when Exercisable	Expiry date
D Giddens	8,333,333	-	-	8,333,333	0 3000p	09-Jul-11	09-Jul-19
B McMullan	2,000,000	-	-	2,000,000	0 3000p	09-Jul-11	09-Jul-19

All options granted are dependent on increasing shareholder value above 25% of the mid-market share price at the time the options were granted. When these options were issued, the Remuneration Committee regarded absolute shareholder return as a valid performance criteria relating to all options granted, based on the fact that the Group was not trading profitably and its share price had fallen materially. The Remuneration Committee do, however, regard adjusted EBITDA as the key performance measurement and future options, if any, will take due regard of this measurement.

Out of the total options granted to Directors, 56,545,455 options over the Ordinary Shares in the Company have been granted under the terms of the Company's approved EMI share option scheme and options over 23,333,333 Ordinary Shares in the Company have been granted under the terms of the Company's unapproved share option scheme.

No other Directors have been granted share options in the shares of the Company or other group companies. The mid-market price of the Company's shares at the end of the financial period was 0 425p and the range of prices during the period was between 0 25p and 0 62p.

By order of the Board

Bill Allan
Chairman, Remuneration Committee
21 February 2011

DIRECTORS' REPORT
for the year ended 30 September 2010

COMPANY NUMBER. 05259846

The Directors present their report on the affairs of the Group, together with the financial statements and auditors' report for the year ended 30 September 2010

Principal activity

The principal activity of the Group is the provision of telecommunications and IT solutions to businesses within the United Kingdom

Business review

The business review contained within the Chairman's Statement on page 2 and the Chief Executive's review on pages 3 to 7, together with the key performance indicators and principal risks and uncertainties disclosed below have been provided by the directors in accordance with the Companies Act 2006

The Company has disclosed the main trends and factors likely to affect the future development, performance and position of the business

Key performance indicator review

The major key performance indicators that the Directors monitor are turnover, EBITDA, gross margin, total group overheads, cash and capital expenditure

- Turnover has more than doubled over the last two years with growth of 107% over the year compared to a growth of 113% in the previous year
- The adjusted EBITDA margin has shown a substantial improvement as a result of both acquisition and organic growth. The adjusted EBITDA was £149,378 for the year compared to negative EBITDA of £499,429 last year
- Gross margin increased from £991,169 to £2,089,457, largely caused by acquisitions during the year and the previous year
- Total group overheads for this year of £2,010,810 compares to £1,573,985 in the previous year. The trend is masked by the increased overheads from acquisitions
- Cash at the year end amounted to £697,189 compared to the previous year of £586,222. The increase was assisted by an issue, on 22 September 2010, of 128,571,429 new Ordinary Shares at 0.35p per share which raised £450,000. The increase was also helped by the micro management of cash during the year, and particularly at the year end
- Capital expenditure remains modest. The group will continue to invest in its proprietary VoIP platform, the costs of which are capitalised

Principal risks and uncertainties

Section 417(3) of the Companies Act 2006 provides that the business review must contain a description of the principal risks and uncertainties. The board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of principal risks and uncertainties which have been identified as a result of this process which could have a material impact on the Group's future performance. At all times, the Board seeks to mitigate these risks and uncertainties. These are not all the risks which the board has identified but those principal risks and uncertainties that the Directors currently consider to be the most material. In addition to these risks Note 22 contains details of financial risks

- **Working capital**

Risk The group's cash resources are finite and its borrowing facilities are limited. Although the group has achieved monthly profitability (before the amortisation of intangibles), there is no guarantee that it will remain in profit. The directors recognise that the group must remain profitable for the business to cover its cost base and remain within its finance resources

Mitigation The Board seeks to mitigate this risk by carefully managing the costs and cash resources of the group. Cash is micro managed on a day to day basis by the senior management team

DIRECTORS' REPORT (CONTINUED)

- **People**

Risk As in many businesses, the ability to hire and retain good people is fundamental to the success of the business. Given the current economic climate, such individuals may be less willing to move to a small business than might otherwise be the case in times of prosperity. This includes quality sales personnel.

Mitigation The Board uses its contacts and significant experience in the recruitment and selection of employees. Acquisitions also bring people and talent which we can utilise.

- **Reputational damage**

Risk The Group provides an essential service to an extensive client base many of whom rely on the provision of that service in order to run their businesses. Any diminution in the level of service could have serious consequences for customer acquisition and retention.

Mitigation Our high level of recurring revenue and our low level of customer attrition are evidence of our ability to provide the level of service required and maintain our reputation in the market.

- **Key suppliers**

Risk The Group is dependent on certain key suppliers for the continued operation of its business. The most significant of which are those for electricity, bandwidth, servers and the delivery of calls and access from licensed operators, particularly BT.

Mitigation In all cases these supplies are obtained from reputable organisations chosen after a thorough selection process. In the case of BT, we rely on the regulatory framework provided by the regulator, OFCOM. The Group actively seeks to maintain good relationships with its chosen suppliers. The Group also seeks to maintain either several sources of supply or alternative sources of supply.

- **Bad debts**

Risk The customer base is mainly made up of SME customers, who are one of the groups feeling the effects of the economic downturn. Although we have not yet experienced any material lift in bad debt, that does not mean to say that there will not be an increase in 2011 as companies continue to realign their cost base. We are particularly exposed to a dealer or reseller running into difficulties as suppliers would require to be paid irrespective of the status of the dealer or reseller.

Mitigation A majority of customers are signed on direct debit which allows us very quickly to know when a customer defaults, and so take appropriate action. Those that are not on direct debit are also carefully monitored and the Group takes appropriate action to recover older debt including engaging with a debt collection agency to recover delinquent debt.

- **Competition**

Risk We pride ourselves in being competitive coupled with having the ability to deliver a solutions based service that enhances the customer's business. Although the economic outlook appears to have strengthened since 2009, a deteriorating climate might cause buying decisions to move more in the direction of a price based sale compared to a value based sale. Although we have not experienced this, we may do so in the future.

Mitigation We deliver a complete communications solution to the customer which, in many cases, is cheaper than legacy products. Our disconnect rate is modest. Due to the nature of VoIP technology, competition exists from the traditional telecom reseller market as well as from IT services businesses. However, the Group considers this as an opportunity as well as a competitive threat, as most of these businesses do not have their own proprietary IP platform.

DIRECTORS' REPORT (CONTINUED)

- **Technology**

Risk As we move towards an IP solution for our customers' needs, there is an increasing technology risk, particularly with the reliability and speed of broadband, which is of fundamental importance to the customer solution. The development of IP is moving very quickly, and certain technologies which exist today may well be obsolete quicker than expected in the future. This would have a negative impact on the group who would be exposed to higher costs, not necessarily recoverable from the client.

Mitigation The VoIP platform developed by Sipswitch gives the Group ownership of a proprietary solution. Solwise is able to undertake technology development to its own account and does not rely on third parties for its VoIP solution.

- **Financing**

Risk The group relies on credit from suppliers on reasonable commercial terms. The main creditors tend to be significant companies. The group does not, at this time, rely on the banking market and is therefore somewhat shielded from the difficulties associated with overdraft and other loan facilities. From time to time, the group has taken out leasing for plant and vehicles and will continue to do so when required. The group owns no property.

Mitigation The group continues to carefully monitor its cash resources, and its forward plans are regularly updated. Should the Board believe that additional capital is required, it would move quickly to achieve this.

The above is not an exhaustive list, and it should not be taken as such, but it does cover the principal areas of risk and uncertainties which the Board continues to focus on.

Results and dividends

The Group's loss on ordinary activities after taxation was £270,739 (2009 £897,063). The audited financial statements of the Group are set out on pages 20 to 50. The Directors do not propose a dividend for the year ended 30 September 2010 (2009 £Nil).

Directors and their interests

The present membership of the Board is as follows:

William Allan, Non-Executive Chairman
Alan J Bonner, Chief Executive Officer
John C Anderson, Non-Executive Director

Graham J Duncan was a director until 29 March 2010. In accordance with the Company's articles of association, John C Anderson will offer himself for re-election at the forthcoming Annual General Meeting. Details of Directors' interests in the Company's shares during the year, including changes to the make up of the Board during the year, are set out in the report of the Board to the members on Directors' remuneration on pages 10 to 12.

Acquisitions

During the year the Company acquired the entire issued share capital of Solwise Telephony Limited and its wholly owned subsidiary Sipswitch Limited, which provides internet and telecommunication services to business customers. Sipswitch has developed its own software platform for the provision of VoIP (broadband voice) services. Further details are contained in Note 3.1 to the consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

Substantial shareholdings

At 18 February 2011 the following interests in three per cent or more of the issued ordinary share capital had been notified to the Company

	Number of ordinary shares	Percentage held
D Giddens	190,273,709	10.19
A J Bonner	187,076,972	10.02
P Goodland	178,273,709	9.55
S Dronfield	84,136,855	4.51
S Patel (1)	74,556,571	3.99
J Alexander (2)	62,356,571	3.34
T Black	57,142,857	3.06

1 Includes the interests of his wife, N Patel 2 Includes the interests of his wife, R Alexander

Share capital

The share capital during the year and the number of ordinary shares reserved for issue are shown in Note 17 to the consolidated financial statements

Employee involvement

All companies within the Group use an Intranet system as a source of information on the Group and developments within the Group, including updates on the Group's strategy and details of new products and services provided by the Group. Information about all products and services is also available on the websites of the operating companies.

Employment of disabled persons

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Supplier payment policy and practice

The Company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the Group at 30 September 2010, calculated in accordance with the requirements of the Companies Act 2006, were 53 days (2009: 56 days). Trade creditor days of the Parent Company at 30 September 2010, were 81 days (2009: 40 days). This represents the ratio, expressed in days, between amounts invoiced to the Company and its subsidiaries in the year by their suppliers and the amounts due, at the year-end, to trade creditors falling due for payment within one year.

Financial risk management and objectives

Details of financial risk management and objectives are contained in Note 22 to the consolidated financial statements.

Financial instruments

The Group's financial instruments comprise cash and liquid resources and finance leases together with various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risk to the Group is interest rate risk arising from floating rate interest rates.

The Group's borrowings at 30 September 2010 comprise finance leases totalling £49,653 (2009: £43,447). The interest rates on the finance leases are fixed for the term of the lease at between 7.5% and 12%.

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2009, notes for a nominal value of £125,000 were issued at par. The loan notes are not transferrable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes will become repayable on demand in the event of a specified default by Pinnacle. Interest accrues on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

DIRECTORS' REPORT (CONTINUED)

The directors consider the fair value of the loan notes to be £133,467 taking into consideration the present value of the principal sum of £125,000 plus the cost of the potential discount, should the loan notes be converted into shares, less the present value of interest payable in arrears as governed by IAS32. Additional information on financial instruments is included in Note 16.

Research and Development

As part of the acquisition of Solwise Telephony Limited and its wholly owned subsidiary Sipswitch Limited, the group acquired a number of proprietary software applications. The Group is committed to the continued research and development of advanced technical applications that enhance the services and solutions available to customers, where they demonstrate potential to generate future profitable revenue streams.

Political and charitable donations

The Group did not make any charitable or political donations in either the current or the previous year.

Environmental policy

The Group acknowledges the importance of environmental matters and where possible uses environmentally-friendly policies in all its offices such as recycling and energy-efficient practices.

Awareness of relevant audit information

So far as each of the directors, at the time the report is approved, is aware:

- there is no relevant audit information of which the auditors are unaware, and
- the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Website disclaimer

The maintenance and integrity of the Pinnacle Telecom Group plc website is the responsibility of the directors. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in the other jurisdictions.

Annual General Meeting

Notice of the Annual General Meeting is set out on pages 60 to 62. Information relating to certain of the resolutions is given or referred to in the notes forming part of the notice.

Auditors

Grant Thornton UK LLP offers themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006 and a resolution will be proposed at the forthcoming Annual General Meeting.

By order of the Board



For WJM Secretaries Limited
Company Secretary
21 February 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report of the Group and the Parent Company Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for group financial statements, state whether applicable IFRSs have been followed subject to any material departures disclosed and explained in the financial statements,
- for Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the Group's system of internal financial control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE TELECOM GROUP PLC

We have audited the group financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 30 September 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2010.


Andrew Howe (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
1/4 Atholl Crescent,
Edinburgh
EH3 8LQ

21 February 2011

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2010

	Note	Year ended 2010 £	Year ended 2009 £
Revenue	4	6,608,533	3,192,222
Cost of sales		(4,519,076)	(2,201,053)
Gross profit		2,089,457	991,169
Administrative expenses		(2,010,810)	(1,573,985)
Operating profit/(loss) before amortisation of intangibles and exceptional costs		78,647	(582,816)
Share of (loss)/profit from associate	10	(1,830)	4,405
Exceptional costs relating to acquisition	3	(18,216)	-
Embedded fair value adjustment in convertible loan	16	(8,467)	-
Amortisation of intangibles		(296,206)	(312,445)
Operating loss	5	(246,072)	(890,856)
Interest receivable		3	618
Interest payable		(22,495)	(4,927)
Finance costs	6	(22,492)	(4,309)
Loss before tax		(268,564)	(895,165)
Taxation	18	18,904	462
Loss for the period from continuing operations		(249,660)	(894,703)
Discontinued operations			
Loss for the period from discontinued operations		(21,079)	(2,360)
Loss for the year		(270,739)	(897,063)
Loss per share			
- basic and fully diluted - continuing	8	(0.01)p	(0.07)p
- basic and fully diluted - discontinued	8	0.00p	0.00p
- basic and fully diluted - total	8	(0.01)p	(0.07)p

CONSOLIDATED INCOME STATEMENT (CONTINUED)
for the year ended 30 September 2010

	Year ended 2010	Year ended 2009
	£	£
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)		
Operating loss	(246,072)	(890,856)
Add back amortisation	296,206	312,445
Add back depreciation	99,244	78,982
EBITDA for the year	149,378	(499,429)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2010

	Year ended 2010	Year ended 2009
	£	£
Loss for the year from total operations	(270,739)	(897,063)
Total comprehensive negative income for the year	(270,739)	(897,063)
Attributable to equity holders of the parent	(270,739)	(897,063)

CONSOLIDATED BALANCE SHEET
as at 30 September 2010

	Note	2010 £	2009 £
Assets			
Intangible assets	9	859,217	864,123
Investments in Associated Companies	10	167,875	169,705
Research and Development Asset	11	195,834	-
Property, plant and equipment	11	136,244	134,332
Total non-current assets		1,359,170	1,168,160
Current assets			
Inventories	13	73,190	25,745
Trade and other receivables	14	1,220,871	929,848
Cash and cash equivalents	15	697,189	586,222
Total current assets		1,991,250	1,541,815
Total assets		3,350,420	2,709,975
Liabilities			
Short term borrowings		(27,115)	(3,480)
Trade and other payables		(968,006)	(882,854)
Other taxes and social security costs		(176,814)	(93,996)
Accruals and other payables		(649,614)	(644,242)
Total current liabilities	16	(1,821,549)	(1,624,572)
Non-current liabilities			
Long term borrowings	16	(209,128)	(163,758)
Total liabilities		(2,030,677)	(1,788,330)
Net assets		1,319,743	921,645
Equity			
Share capital		5,481,009	5,316,488
Share premium account		3,560,331	3,238,902
Merger reserve		283,357	114,392
Other reserve		25,026	11,104
Fair value adjustment		(1,064,130)	(1,064,130)
Profit and loss reserve		(6,965,850)	(6,695,111)
Total equity	17	1,319,743	921,645

These financial statements were approved by the Board of Directors on 21 February 2011 Signed on behalf of the Board of Directors by


A J Bonner
Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these financial statements
COMPANY NUMBER 05259846

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2010

	Share capital	Share premium	Merger reserve	Other reserve	Fair value	Retained earnings	Total
At 1 October 2008	4,807,680	3,207,593	-	2,852	(1,064,130)	(5,798,048)	1,155,947
Loss and total comprehensive loss for the period	-	-	-	-	-	(897,063)	(897,063)
Transactions with owners							
Share Issue	508,808	-	-	-	-	-	508,808
Premium on Share Issue	-	-	152,642	-	-	-	152,642
Share based payments	-	-	-	8,252	-	-	8,252
Expenses recovered on prior year disposal *	-	31,309	-	-	-	-	31,309
Expenses incurred on acquisition	-	-	(38,250)	-	-	-	(38,250)
Total Transactions with owners	508,808	31,309	114,392	8,252	-	-	662,761
Total movements	508,808	31,309	114,392	8,252	-	(897,063)	(234,302)
Equity at 30 September 2009	5,316,488	3,238,902	114,392	11,104	(1,064,130)	(6,695,111)	921,645
At 1 October 2009	5,316,488	3,238,902	114,392	11,104	(1,064,130)	(6,695,111)	921,645
Loss and total comprehensive loss for the period and expense for the period	-	-	-	-	-	(270,739)	(270,739)
Transactions with owners							
Share Issue	164,521	-	-	-	-	-	164,521
Share based payments	-	-	-	13,922	-	-	13,922
Premium on Share Issue	-	321,429	168,965	-	-	-	490,394
Total Transactions with owners	164,521	321,429	168,965	13,922	-	-	668,837
Total movements	164,521	321,429	168,965	13,922	-	(270,739)	398,098
Equity at 30 September 2010	5,481,009	3,560,331	283,357	25,026	(1,064,130)	(6,965,850)	1,319,743

Note

* Relates to VAT recovered on expenses on prior year disposal group

The accompanying accounting policies and notes form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2010

	2010 £	2009 £
Cash flows from operating activities		
Loss before taxation	(289,643)	(897,525)
Adjustments for		
Depreciation	99,244	78,982
Amortisation	296,206	312,445
Share of profit/(loss) from associate	1,830	(4,405)
Share option charge	13,922	8,252
Fair value adjustment for convertible loan	8,467	-
Interest expense	22,492	4,309
Receipt of corporation tax	-	-
(Increase)/decrease in trade and other receivables	(216,973)	(156,874)
(Increase)/decrease in inventories	(42,445)	(11,393)
(Decrease)/increase in trade payables, accruals and other creditors	(68,556)	541,607
Net cash flow from operating activities	(175,456)	(124,602)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(20,525)	86,389
Purchase of property, plant and equipment	(93,377)	(18,432)
Interest received	3	618
Net cash used in investing activities	(113,899)	68,575
Cash flows from financing activities		
Issue of shares	450,000	-
Receipt from convertible loans	-	125,000
Payments of finance lease liabilities	(23,703)	(19,889)
Interest paid	(22,495)	(4,927)
Net cash from financing activities	403,802	100,184
Net increase in cash	114,447	44,157
Cash and cash equivalents at beginning of period	582,742	538,585
Cash and cash equivalents at end of period	697,189	582,742
Cash and cash equivalents comprise		
Cash and cash equivalents	697,189	586,222
Bank overdrafts	-	(3,480)
	697,189	582,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Pinnacle Telecom Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the inside back cover of this report. The nature of the Group's operations and its principal activities are set out in the Chief Executive's Review and Directors' report. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

1.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below. The principal accounting policies of the Group have remained unchanged from the previous year.

On the basis of a review of cash balances, banking facilities and the ability to call on certain shareholders to subscribe to additional loan notes, together with a review of forecasts and sensitised cash flows, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the financial statements. The Directors recognise that the Group must maintain monthly profitability for the business to cover its cost base and remain within its finance facilities.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

1.2 New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations with an effective date after the date of these financial statements:

IFRS 9 Financial Instruments (effective 1 January 2013)

IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)

Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)

Improvements to IFRS issued May 2010 (Note: some changes are effective 1 July 2010, though not yet EU-adopted, others effective 1 January 2011)

These standards are not yet effective and have not been adopted early by the Group; neither are they expected to have any material impact on the Group's consolidated financial statements.

The financial statements for the year ended 30 September 2010 were approved by the Board of Directors on 21 February 2011.

2. Principal Accounting Policies

a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2010. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

a) Basis of consolidation (continued)

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in the consolidated income statement and therefore affect net results of the group.

These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in the associate's equity are recognised in the consolidated equity of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

b) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to Principal Accounting Policy (j) for a description of impairment testing procedures.

c) Revenue and revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow from the transaction and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on prior experience, taking into consideration the type of customer and the type of transaction.

The group recognises three segments for monitoring and reporting purposes:

- Mobile services
- IT
- Other telecommunications services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Mobile services

Mobile network services (voice and data) principally consist of service and usage charges. Service charges are recognised evenly over the period to which the service relates. Usage charges are recognised in the period when the service is received by the customer.

Where period discounts are offered, the discount is spread evenly over the contract. Commissions receivable from mobile network operators for new connections or the resigning of an existing contract are recognised in line with the fulfilment of the associated obligation. Separate provision is made for any anticipated liabilities.

IT

Revenue attributable to the maintenance and support of systems is invoiced in accordance with the contract and recognised on a straight-line basis over the support period. Deferred income arises where services are invoiced in advance of performance. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the balance sheet date.

Other telecommunications services

Fixed line network services (voice and data) principally consist of service and usage charges. Service charges are recognised evenly over the period to which the service relates. Usage charges are recognised in the period when the service is received by the customer. Where period discounts are offered, the discount is spread evenly over the contract.

The group sells and installs telephony systems. Revenue from the sale and installation of hardware and associated licences is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation. External costs associated with the installation are recorded as work-in-progress until the revenue has been recognised. Revenue in respect of licences is only recognised where there are no ongoing obligations. Where ongoing obligations exist, revenue is deferred as appropriate. The system may be sold as part of a package including network services and maintenance. Customer discounts, such as free maintenance or free line rental for a period of the contract, are apportioned between the system sale and the associated service based on sales value.

The group provides maintenance services for telephony systems. Revenue is recognised evenly over the contract period. Fees charged to customers for the provision of maintenance and support services is recognised on a straight line basis over the period of the related agreement.

Revenue from the sale and installation of hardware is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation. Costs associated with this revenue are recognised in the same month.

d) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the income statement.

e) Property, plant and equipment

Property, plant and equipment, which include motor vehicles, are stated at cost, net of depreciation and any provision for impairment. The depreciation policy is contained in Principal Accounting Policy (h).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

f) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or revaluation of held for sale assets is included in "Loss for the year from discontinued operations" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the profit and loss reserve.

g) Discontinued operations

A discontinued operation is a cash generating unit, or a group of cash generating units, that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale

The disclosures for discontinued operations in the current and prior year relate to all operations that have been discontinued by the balance sheet date for the latest period presented.

h) Depreciation

Depreciation is calculated on a straight line basis so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and equipment – over three years

Fixtures and fittings and leasehold improvements – over three years

Software development – over five years

IT equipment – over three years

Motor vehicles – over three years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

i) Intangible fixed assets

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangibles are initially recognised at fair value, and subsequently carried at fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group:

- Maintenance contracts to be amortised over 5 years
- Customer lists to be amortised over a period of 5 years
- Custom Voice over internet systems to be valued and amortised over a maximum of 5 years

j) Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level.

Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill and other intangible assets with an indefinite useful life, and those intangible assets not yet available for use, are tested for impairment at least annually. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

j) Impairment testing of goodwill, other intangible assets and property, plant and equipment (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

k) Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

l) Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items and the cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part completed work.

m) Taxation

Current tax is the tax currently payable based on taxable results for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

n) Financial assets

Financial assets are divided into the following categories: loans and receivables. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument.

All financial assets are initially recognised at fair value, plus transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

n) Financial assets (continued)

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable, regardless of how the related carrying amount of financial assets is measured.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

p) Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in 'finance cost' in the income statement. Loan notes are raised for support of long-term funding of the Group's operations. They are recognised initially at fair value, net of direct issue costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Dividend distributions payable to equity shareholders are included in 'other short-term financial liabilities' when the dividends are approved in general meeting prior to the balance sheet date.

q) Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- 'Merger reserve' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.
- 'Other reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Fair Value Adjustment' represents the difference between the market value at the date of issue of shares to satisfy acquisitions and the value agreed with the vendors relating to these acquisitions.
- 'Profit and loss reserve' represents retained profits and accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

r) Employee benefits

Share-Based Payment – Equity settled

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to 'other reserve'. If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital.

s) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The Group has made one acquisition during the year, being Solwise Telephony Limited and its wholly owned subsidiary Sipswitch Limited. The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affects the goodwill and the assignment of that to the cash generating unit, recognised in respect of the acquisition. Estimates and judgements around the allocation of fair values are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Intangible assets

Determining whether intangible assets are impaired requires the judgement of whether there is an impairment indicator. Management are satisfied there is no impairment indicator and the loss reported by the Group for the year is not an impairment indicator. Although overall loss making the gross profit for the Group is positive. The loss is due to group operating costs, restructuring costs and not a result of the performance of the intangible assets.

The key judgement for the carrying value of intangible assets is the cash flows associated with the intangible assets. Each of the intangible assets held by the Group continues to generate positive cash flows and therefore management are satisfied there is no impairment indicator.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments depending on the terms and conditions of the grant. Management are also required to use certain assumptions in determining the most appropriate inputs to the valuation model including expected life of the option, volatility, risk free rate and dividend yield. The assumptions and models used are fully disclosed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Contingent consideration

Under IFRS 3 Business combinations, contingent consideration is included in the cost of a business combination to the extent that it is deemed probable and can be measured reliably. This requires management to assess the probability and to estimate the financial impact of events on which consideration is contingent.

3 Acquisitions

3.1. Acquisition of Solwise Telephony Limited

On 13 January 2010, the Company acquired the entire issued share capital of Solwise Telephony Limited, and its wholly owned subsidiary Sipswitch Limited. The total consideration was £204,915, satisfied by the issue of 35,950,000 ordinary shares in Pinnacle Telecom Group plc at a price of 0.57 pence per share. The total consideration was apportioned as 31,746,843 of ordinary shares, issued as initial consideration, amounting to £180,957 plus a further 4,203,157 ordinary shares ("loan shares") issued in connection with loans owed by Solwise to certain vendors, amounting to £23,958 in aggregate.

The acquisition agreement allows for additional contingent consideration to be awarded, with earn out provisions based on earnings before interest and taxation ("EBIT") for the years ending 30 September 2010 and 30 September 2011. For the year ending 2010, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £40,000. For the year ending 2011, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £60,000. The total contingent consideration cannot exceed £295,085 in total over the two year end periods. For the purpose of calculating the intangible asset under IFRS3, contingent consideration of £80,000 has been assumed over the two year end periods.

Prior to the acquisition, Solwise Telephony Limited was an existing customer of Pinnacle Telecom plc for the supply of wholesale telecommunications services. For the period 1 October 2009 to 12 January 2010, Solwise Telephony Limited purchased services to the value of £33,930 on normal commercial terms and on an arms length basis. On the date of acquisition, Solwise Telephony Limited owed Pinnacle Telecom plc £61,563 in unpaid invoices. All transactions were carried out under normal market conditions and subsequently paid after 13 January 2010.

The loan shares above, amounting to £23,958, were issued in full settlement of a number of commercial loans made to Solwise Telephony Limited by certain minority shareholders prior to acquisition. The commercial loans were issued for cash and under normal commercial terms. The loans were settled at par value and included any interest accrued at the acquisition date.

With the exception of intangible assets no adjustments have been made to the book values of the assets and liabilities at acquisition. The book value of intangible assets in Solwise Telephony Limited and Sipswitch Limited at acquisition was nil. The consolidated accounts of both companies can be analysed as follows:

	Book Cost	Fair Value
	£	£
Assets		
Software development costs	154,973	154,973
Property, plant and equipment	18,732	18,732
	<u>173,705</u>	<u>173,705</u>
Current assets		
Inventories	5,000	5,000
Trade and other receivables	74,049	74,049
Cash and cash equivalents	(20,525)	(20,525)
Total current assets	<u>58,524</u>	<u>58,524</u>
Total assets	<u>232,229</u>	<u>232,229</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.1. Acquisition of Solwise Telephony Limited (continued)

	Book Cost	Fair Value
	£	£
Current Liabilities		
Trade and other payables	160,962	160,962
Other taxes and social security costs	34,782	34,782
Other creditors and accruals	42,102	42,102
	237,846	237,846
Total non-current liabilities	24,726	24,726
	262,572	262,572
Net Liabilities	(30,343)	(30,343)
- initial consideration		180,957
- contingent consideration		80,000
Fair value of cost of acquisition		260,957
Intangible Asset		291,300

Turnover and operating profit of the company acquired for the post acquisition period was £1,008,372 and £60,754, respectively. Pre-acquisition turnover and operating losses for the period 1 October 2009 to 12 January 2011 were £170,214 and £53,807 respectively and are not included in the Group consolidated financial statements.

Exceptional costs incurred in relation to the acquisition were £18,216 and in accordance with IFRS3 have been expensed in the income statement for the Group.

4. Segment Reporting

The chief operating decision-maker has been identified as the Chief Executive Officer ("CEO") of the Company. The CEO reviews the Group's internal reporting in order to assess performance and to allocate resources. The Company has determined its operating segments based on these reports.

The Group currently has three reportable segments:

- Mobile services – this segment provides a range of mobile services and solutions to micro and SME companies
- IT – this segment provides a wide range of IT focused solutions to both SME and middle market companies, including Voice over IP ("VoIP") implementations
- Other – this sector covers a range of telecommunications services including calls and line rental

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the operating segments based on revenue and a measure of Earnings before Interest, Depreciation and Amortisation (EBITDA) before any allocation of Group overheads or charges for share based payments. Segment EBITDA is used to measure performance as the CEO believes that such information is the most relevant in evaluating the results of the segment.

The Group's EBITDA for the year has been calculated after deducting Group overheads from the EBITDA of the three segments as reported internally. The Group overheads include the cost of the Board, the costs of maintaining a listing on AIM, legal and professional fees, and the costs of shareholder communications including the costs of retaining a Nominated Advisor and a Broker.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Segment Reporting (continued)

The segment information is prepared using accounting policies consistent with those of the Group as a whole

The assets and liabilities of the Group are also reviewed by the chief operating decision-maker on a segment basis and have been disclosed

All segments are continuing operations No customer accounts for more than 10% of external revenues Inter-segment transactions are accounted for using an arms-length commercial basis

4.1 Analysis of revenue	2010	2009
	£	£
By business sector		
Mobile services	663,551	332,249
IT	742,070	571,270
Other telecommunications services	5,202,912	2,288,703
Continuing operations	6,608,533	3,192,222
Total revenue	6,608,533	3,192,222
By destination		
United Kingdom	6,608,533	3,192,222
Total revenue	6,608,533	3,192,222
	2010	2009
	£	£
By origin		
Continuing operations		
Pinnacle Telecom plc	1,327,003	1,177,169
Accent Telecom UK Limited	3,504,104	1,154,067
Solwise Telephony Limited (13 January to 30 September)	1,008,372	-
Colloquium Limited	315,486	396,253
Sports Club Telecom Limited	265,528	274,026
Explore IT Limited	114,246	104,684
Other group companies	73,794	86,023
	6,608,533	3,192,222
Total revenue	6,608,533	3,192,222
By recurring nature		
Recurring - continuing operations	5,343,492	2,811,137
Non-Recurring - continuing operations	1,265,041	381,085
	6,608,533	3,192,222
Total revenue	6,608,533	3,192,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.2 Analysis of net loss after tax

	2010 £	2009 £
4.2.1 By business sector		
Mobile services		
Profit/(loss) from operations before amortisation	46,083	(17,842)
IT		
Loss from operations before amortisation	(55,379)	(151,978)
Amortisation	(54,789)	(47,289)
Loss from operations after amortisation	(110,168)	(199,267)
Other telecommunications services		
Profit/(loss) from operations before amortisation	372,788	(56,020)
Amortisation	(241,417)	(265,156)
Profit/(loss) from operations after amortisation	131,371	(321,176)
Head office	(316,946)	(356,418)
Continuing operations	(249,660)	(894,703)
IT - discontinued operations	(21,079)	(2,360)
Total losses	(270,739)	(897,063)
	2010 £	2009 £
4.2.2 By destination		
United Kingdom	(270,739)	(897,063)
	2010 £	2009 £
4.2.3 By origin		
Pinnacle Telecom plc	163,897	12,555
Accent Telecom UK Limited	155,529	(25,654)
Colloquium Limited	(54,219)	(116,443)
Sports Club Telecom Limited	14,983	(8,662)
Solwise Telephony Limited (13 January to 30 September)	60,754	-
Explore IT Limited	(3,363)	(49,602)
Head Office and other group companies	(291,035)	(394,452)
Profit/(loss) from continuing operations before exceptional items	46,546	(582,258)
Amortisation	(296,206)	(312,445)
Eclectic Group Limited and I G Software Limited - discontinued operations	(21,079)	(2,360)
Total losses	(270,739)	(897,063)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.2.4 By recurring nature	2010 £	2009 £
Recurring - continuing operations	94,146	(573,096)
Non-Recurring - continuing operations	(47,600)	(9,162)
Loss from continuing operations before exceptional items	46,546	(582,258)
Amortisation	(296,206)	(312,445)
Non-Recurring - discontinued operations	(21,079)	(2,360)
Total losses	(270,739)	(897,063)

4.3 Analysis of assets and liabilities

	Mobile	IT	Other telecommunications services	Discontinued operations	Total
Assets					
Intangible assets	-	205,544	653,673	-	859,217
Investments in Associated Companies	-	167,875	-	-	167,875
Property, plant and equipment	324	282,967	48,787	-	332,078
Total non-current assets	324	656,386	702,460	-	1,359,170
	Mobile	IT	Other telecommunications services	Discontinued operations	Total
Current assets					
Inventories	-	7,353	65,837	-	73,190
Trade and other receivables	78,557	33,067	1,108,039	1,208	1,220,871
Cash and cash equivalents	11,263	8,610	674,506	2,810	697,189
Total current assets	89,820	49,030	1,848,382	4,018	1,991,250
Total assets	90,144	705,416	2,550,842	4,018	3,350,420
Liabilities					
Short term borrowings	-	-	(27,115)	-	(27,115)
Trade and other payables	(29,943)	(36,180)	(883,797)	(18,086)	(968,006)
Other taxes and social security costs	(2,925)	(14,608)	(159,091)	(190)	(176,814)
Accruals and other payables	(36,532)	(14,773)	(598,055)	(254)	(649,614)
Total current liabilities	(69,400)	(65,561)	(1,668,058)	(18,530)	(1,821,549)
Total non-current liabilities	-	-	(209,128)	-	(209,128)
Total liabilities	(69,400)	(65,561)	(1,877,186)	(18,530)	(2,030,677)
Net assets	20,744	639,855	673,656	(14,512)	1,319,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Operating loss	2010	2009
	£	£
Loss from operations is stated after charging		
Depreciation of owned fixed assets	99,244	78,415
Other operating lease rentals		
– buildings	57,837	48,391
– office equipment	-	1,413
Auditors' remuneration - audit of parent company	7,000	7,000
- audit of subsidiary companies	23,000	22,000

6 Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the income statement line for the reporting periods presented

	2010	2009
	£	£
Interest income resulting from short-term bank deposits	3	618
Finance income	3	618
Interest expense resulting from		
- Convertible loan	12,500	-
- finance leases	4,997	2,854
- other commercial loans	774	192
- bank overdrafts	1,700	86
- overdue taxation	2,524	1,795
Finance costs	22,495	4,927

7 Employee costs

7.1 Directors and employees

The average number of staff employed by the Group during the financial year amounted to

	2010	2009
Number of management staff	6	5
Number of operational staff	18	18
Total	24	23

Employee numbers are stated including Directors

7.2 Employee remuneration

	2010	2009
	£	£
Wages and salaries	665,004	755,844
Share option costs	13,922	8,252
Social security costs	66,719	89,190
Total	745,645	853,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7.3 Share-based remuneration

The Company has an HMRC approved EMI share option scheme as part of the remuneration of senior management. There is also an unapproved share option scheme in place which is used where the individuals do not fall under the rules of the approved scheme. The maximum term of current arrangements under the EMI scheme ends on 1 July 2018.

The unapproved scheme has no set term. In both schemes, upon vesting, each option allows the holder to purchase one ordinary share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options. The performance criteria attached to the outstanding options is based on total shareholder return. The holder can only exercise the option if the share price exceeds 25% of the share price at the time the option was granted.

	2010		2009	
	Number	weighted average exercise price £	Number	weighted average exercise price £
Outstanding at 1 October	65,212,122	0.00167	65,212,122	0.00167
Granted	39,666,666	0.003	39,666,666	0.003
Lapsed	-	-	-	-
Outstanding at 30 September	104,878,788	0.00167	104,878,788	0.00167

At 30 September 2010, Pinnacle Telecom Group plc has granted the following outstanding share options:

	2010			2009		
	Number	Weighted average exercise price £	weighted average remaining contractual life Months	Number	weighted average exercise price £	weighted average remaining contractual life Months
Earliest exercise date						
2005	666,667	0.03	50	666,667	0.03	62
2010	64,545,455	0.001375	93	64,545,455	0.001375	105
2011	39,666,666	0.003	105	39,666,666	0.003	117

In total £13,922 of employee remuneration expense has been included in the consolidated income statement for 2010 (2009 £8,252). The fair value of options granted was calculated using the Black Scholes option pricing model incorporating the following key assumptions:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7.3 Share-based remuneration (continued)

	2010			2009		
Number of options	39,666,666	64,545,455	666,667	39,666,666	64,545,455	666,667
Volatility	75%	75%	50%	75%	75%	50%
Spot Price	0.003	0.001375	0.03	0.003	0.001375	0.03
Interest rate	4.50%	4.50%	4.52%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%	0%	0%
Vesting period (years)	2	3	1	2	3	1
Option value weighted average exercise price	£0.0185	£0.00869	£0.0147	£0.0185	£0.00869	£0.0147

7.4 Directors

Details of individual Directors' emoluments for the year (including employers national insurance contributions shown below) are as follows

	Fees and salaries		Bonus		Employers NI contributions		Other Benefits		Totals (incl. Employers NI)	
	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £
Non- Executive										
W Allan	18,000	-	-	-	2,304	-	-	-	20,304	-
J C Anderson	10,000	10,000	-	-	1,280	1,280	-	-	11,280	11,280
G J Duncan (1)	22,032	35,000	-	-	2,820	4,480	435	869	25,287	40,349
Executive										
A Bonner	85,800	85,800	49,200	35,156	17,280	15,482	8,169	5,971	160,449	142,409
Totals	135,832	130,800	49,200	35,156	23,684	21,242	8,604	6,840	217,320	194,038

In addition to his remuneration as Chairman, Graham J Duncan received consulting fees under the terms of a contract for services of £50,000 (2009 £56,667). D Giddens, a director of a subsidiary company received fees during the year of £66,667 (2009 £28,888).

Benefits include the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors of the Company as follows

	2010 £	2009 £
Name of Director		
G J Duncan (1)	435	869
A J Bonner	7,512	5,368
Total	7,947	6,237

1) Graham J Duncan ceased to be a director on 29 March 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Total and continuing loss per share

	2010 £	2009 £
Loss attributable to ordinary shareholders – continuing operations	249,660	894,703
Loss attributable to ordinary shareholders – discontinued operations	21,079	2,360
Loss attributable to ordinary shareholders	270,739	897,063
	Number	Number
Weighted average number of ordinary shares in issue	1,732,688,226	1,363,702,413
Loss per share (pence) – continuing operations	0.01	0.07
Loss per share (pence) – discontinued operations	0	0
Loss per share (pence) – total	0.01	0.07

Both the basic and diluted earnings per share have been calculated using the net loss after taxation attributable to the shareholders of Pinnacle Telecom Group plc as the numerator

The weighted average number of outstanding shares used for basic earnings per share amounted to 1,732,688,226 shares (2009 1,363,702,413) following the issue of 35,950,000 shares as part of the acquisition of Solwise Telephony Limited on 13 January 2010 and the issue of 128,571,429 shares as part of the private placing on 22 September 2010. Due to the losses incurred by the Group the share options are anti-dilutive.

9. Intangible assets

Fair value at cost	Date of acquisition	2010 £	2009 £
Explore IT Limited - Maintenance Contracts	04 September 2006	100,000	100,000
Pinnacle Telecom plc - billing system	08 June 2007	150,000	150,000
Pinnacle Telecom plc - customer base	08 June 2007	443,163	443,163
Sports Club Telecom Limited - customer base	25 June 2007	123,946	123,946
Colloquium Limited - customer base	04 June 2008	136,444	136,444
Accent Telecom UK Limited - customer base	11 June 2009	459,000	459,000
Solwise Telephony Limited - customer base	13 January 2010	291,300	-
		1,703,853	1,412,553
Amortisation to date.			
Explore IT Limited - Maintenance Contracts		80,000	60,000
Pinnacle Telecom plc - billing system		150,000	150,000
Pinnacle Telecom plc - customer base		295,443	206,810
Sports Club Telecom Limited - customer base		80,564	55,775
Colloquium Limited - customer base		61,400	34,111
Accent Telecom UK Limited - customer base		133,534	41,734
Solwise Telephony Limited - customer base		43,695	-
		844,636	548,430
Carrying amount at 30 September		859,217	864,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Intangible assets (continued)

	2010 £	2009 £
Net intangible assets at 1 October	864,123	717,568
Intangible asset additions	291,300	459,000
Amortisation in period	(296,206)	(312,445)
Net intangible assets at 30 September	859,217	864,123

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. The Group's policy is for the

- Maintenance contracts to be amortised over 5 years
- Customer lists to be amortised over a period of 5 years
- Custom Voice over internet systems to be valued and amortised over a maximum of 5 years

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level. Customer lists are assessed for impairment by measuring the actual post-acquisition cash flows of individual customers purchased from the date of acquisition and projecting these cash flows forward over time. The calculation at 30 September 2010 showed that each of the acquired customer lists will continue to generate positive cash flows in excess of their net carrying value at year-end. In addition, the projected revenues from the custom voice over internet systems are forecast to generate cash flows greater than their carrying value at year-end. On this basis the directors conclude that no further impairment of intangible assets is required at 30 September 2010.

10 Group Investments

10.1 Principal subsidiary undertakings

The Group's principal subsidiary undertakings are as follows:

	Holding	Country of incorporation	Class of share capital	Nature of business
Subsidiary undertakings				
Glen Communications Limited	100%	Scotland	Ordinary	Telecommunications
Pinnacle Telecom plc	100%	Scotland	Ordinary/Preference	Telecommunications
Pinnacle Mobile Limited	100%	England and Wales	Ordinary	Telecommunications
Sports Club Telecom Limited	100%	Scotland	Ordinary	Telecommunications
Colloquium Limited	100%	Scotland	Ordinary	Telecommunications
Accent Telecom UK Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
Explore IT Limited	100%	England and Wales	Ordinary	IT Services
Solvise Telephony Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
Sipswitch Limited	100%	England and Wales	Ordinary/Preference	Voice over Internet
Pinnacle Group Limited	100%	Scotland	Ordinary	Holding company

10.2 Associate company

As part of the acquisition of Accent Telecom UK Limited in 2009, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. The investment in the associate company is carried using the fair value of the identifiable assets at 30 September 2010 and is adjusted for the Group share of revenues and expenses in the year. Stripe21 Limited has an accounting reference date of 30 June.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 2 Associate company (continued)

	2010 £	2009 £
Fair value of investment in associated company – Stripe21 Limited	169,705	165,300
Share of (loss)/profit from associate	(1,830)	4,405
Investment in associated company at 30 September	167,875	169,705

11 Property, plant and equipment

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software	Total
	£	£	£	£	£
Cost of assets					
At 1 October 2009	578,904	135,351	42,020	-	756,275
Additions	29,945	1,957	29,909	61,475	123,286
Additions by acquisition	50,403	191	-	154,973	205,567
Disposals	(15,872)	-	(17,890)	-	(33,762)
At 30 September 2010	643,380	137,499	54,039	216,448	1,051,366
Cost of assets					
At 1 October 2008	476,990	117,336	27,020	-	621,346
Additions	417	18,015	15,000	-	33,432
Additions by acquisition	101,497	-	-	-	101,497
At 30 September 2009	578,904	135,351	42,020	-	756,275
Depreciation					
At 1 October 2009	489,650	103,238	29,055	-	621,943
Additions by acquisition	31,863	-	-	-	31,863
Charge for the year	59,553	12,260	6,817	20,614	99,244
Disposals	(15,872)	-	(17,890)	-	(33,762)
At 30 September 2010	565,194	115,498	17,982	20,614	719,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Property, plant and equipment (continued)

	IT Equipment £	Fixtures and fittings and leasehold improvements £	Plant, machinery and motor vehicles £	Software £	Total £
Depreciation					
At 1 October 2008	379,405	84,252	23,677	-	487,334
Additions by acquisition	55,626	-	-	-	55,626
Charge for the year	54,619	18,986	5,378	-	78,983
At 30 September 2009	489,650	103,238	29,055	-	621,943
Net Book value at 30 September 2010	78,186	22,001	36,057	195,834	332,078
Net Book value at 30 September 2009	89,254	32,113	12,965	-	134,332

12 Leases

12.1. Finance leases

Pinnacle Telecom Group plc has finance leases which relate to assets used within the Group. The net carrying amount of the assets held under the leases is £51,674 (2009 £39,361). The assets are included under IT Equipment and Motor Vehicles.

Future minimum lease payments as at 30 September 2010

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
Finance lease payments due	27,115	22,538	-	49,653

12.2 Operating leases

The Group's minimum operating lease payments all relate to land and buildings as follows

Land and buildings	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
As at 30 September 2010	43,135	56,238	-	99,373
As at 30 September 2009	34,200	44,400	-	78,600

Lease payments recognised as an expense during the year amounted to £57,837 (2009 £45,901). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group. The terms left on the non-cancellable leases can be summarised as follows

	Rented since	Non-cancellable term left
Property		
101 Abercorn Street, Paisley	1995	6 months
10a Cheyne Walk, Northampton	2006	4 months
Brooke House, Northampton	2010	33 months

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12.2 Operating leases (continued)

Operating leases do not contain any contingent rent clauses. None of the operating lease agreements contain renewal of purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt. The property at 10a Cheyne Walk was vacated in August 2010 prior to the year end.

13. Inventories

	2010 £	2009 £
Consumables	53,631	15,506
Work in Progress	19,559	10,239
Inventories	73,190	25,745

14 Trade and other receivables

	2010 £	2009 £
Trade receivables	495,375	560,780
Prepayments and accrued income	725,496	369,068
	1,220,871	929,848

Trade debtors at the balance sheet date comprise amounts receivable from the provision of IT and telecommunications services. The average credit period taken on the provision of these services is 25 days (2009: 56 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £71,181 (2009: £169,566). This impairment has been determined by reference to known issues. Write offs are made when the irrecoverable amount becomes certain. The carrying value of trade and other receivables approximates to their fair value.

At 30 September 2010 trade receivables amounting to £233,120 (2009: £308,295) were past due but not impaired. The age of trade receivables not impaired is as follows:

	2010 £	2009 £
Not past due (less than 30 days)	262,255	252,485
30 – 59 days	92,764	123,217
60 – 89 days	102,238	54,383
90 – 119 days	16,420	44,481
120 days +	21,698	86,214
	495,375	560,780

Credit risk

The Group's main risk relates to trade receivables which are stated net of the provisions above. No collateral is held as security against these debtors and the carrying value represents the fair value. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised represent a large number of receivables from various customers, including some government and public authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Cash and cash equivalents

	2010 £	2009 £
Cash at bank and in hand	697,189	586,222

Cash balances are held with a small number of counter parties. The figure at 30 September 2010 has been helped by the micro-management of cash during the year, and particularly at the year end. The year end cash balance also includes £450,000 representing the proceeds of the private placing on 22 September 2010. The majority of bank accounts are held with HSBC plc.

16 1. Trade and other payables

	2010 £	2009 £
Bank overdrafts	-	-
Bank loans	-	-
Finance lease liability	49,653	43,447
	49,653	43,447
Less non-current portion of finance leases	(22,538)	(38,758)
Short-term borrowings	27,115	3,480
Trade payables	968,006	882,854
Accruals and other payables	619,614	644,242
Contingent consideration – Solwise Telephony – short term element	30,000	-
Other taxes and social security costs	176,814	93,996
Trade and other payables	1,821,549	1,624,572

Note 12.1 contains further information on the finance lease liability.

The fair values of the trade and other payables has not been disclosed as due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

16 2 Long-term borrowings

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2009, notes for a nominal value of £125,000 were issued at par. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes will become repayable on demand in the event of a specified default by Pinnacle.

The loan notes are convertible into ordinary shares by Pinnacle at any time after 30 September 2011, or by the holders of the loan notes at any time following the period of thirty days after 30 September 2011. The conversion price is at a discount of 15% to the mid-market price per ordinary share as at close of business on the date five days after service of the relevant conversion notice, subject to a minimum of nominal value. The ordinary shares to be issued will rank par passu in all respects with the ordinary shares in issue. A provision for the embedded derivative created by the potential discount, should the loan notes be converted into shares, has been made in the accounts. Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 if the Group requires additional funding in the next twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16.2 Long-term borrowings (continued)

The directors consider the fair value of the loan notes to be £133,467 at 30 September 2010 taking into consideration the issue price of £125,000 at 30 September 2009 plus a provision for the potential discount, should the loan notes be converted into shares at some future date. Interest accrues on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

	2010 £	2009 £
Fair value of convertible loan notes	133,467	125,000
Contingent consideration – Solwise Telephony Limited – long term element	50,000	-
Finance leasing liability – long-term element	22,538	23,141
Effective repayment to acquire investment – long term element	3,123	15,617
Long-term financial liabilities	209,128	163,758

17 Share capital and reserves

17.1 Share capital

The share capital of Pinnacle Telecom Group plc consists of ordinary shares with a par value of £0.001 and deferred shares with a par value of £0.009. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Pinnacle Telecom Group plc. The deferred shares carry no voting rights and are not eligible to receive dividends or repayment of capital.

	2010 £	2009 £
Shares issued and fully paid		
– beginning of year	5,316,488	4,807,680
– issued during year	164,521	508,808
Shares issued and fully paid	5,481,009	5,316,488
Shares authorised but not issued at 30 September	3,518,991	683,512
Total equity shares authorised at 30 September	9,000,000	6,000,000
 The authorised and issued share capital can be summarised as follows		
	2010 £	2009 £
Total equity shares authorised		
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	2,386,420
3,000,000,000 Ordinary shares of £0.001 each authorised 31 March 2010	3,000,000	-
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	9,000,000	6,000,000
 Shares issued and fully paid		
1,702,907,630 Ordinary shares of £0.001 each	-	1,702,908
1,867,429,630 Ordinary shares of £0.001 each	1,867,429	-
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	5,481,009	5,316,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17.2 Share premium

	2010 £	2009 £
Balance brought forward	3,238,902	3,207,593
Share premium on private placing for shares	321,429	-
Expenses recovered on group disposal *	-	31,309
Balance carried forward	3,560,331	3,238,902

Note:

* Relates to VAT recovered on expenses on prior year disposal group

17.3 Profit and loss reserve

	2010 £	2009 £
Profit and loss account at 1 October 2009	(6,695,111)	(5,798,048)
Loss for the year	(270,739)	(897,063)
Profit and loss account at 30 September 2010	(6,965,850)	(6,695,111)

17.4 Merger reserve

The Group has taken advantage of the merger relief provisions in relation to the acquisition of Solwise Telephony Limited. The Merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

18 Income tax expenses

	2010 £	2009 £
The tax rebate represents		
UK corporation tax on profits of the period	-	-
Total current tax	-	-
Adjustment for prior year taxation	(18,904)	(462)
Tax rebate	(18,904)	(462)

The relationship between expected tax expense based on the effective tax rate of Pinnacle Telecom Group plc at 28% (2009: 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2010 £	2009 £
Result for the year before tax	(268,564)	(897,525)
Tax rate	28%	28%
Expected tax expenses	(75,198)	(251,307)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Income tax expenses (continued)

	2010 £	2009 £
Adjustment for.		
Non-deductible expenses	587	3,629
Small companies relief	18,804	14
Depreciation in excess of capital allowances	(12,556)	9,404
Excess management charges	58,578	-
Utilisation of tax losses	(23,151)	(37,982)
Tax losses carried forward	153,643	329,553
Adjustments on consolidation – pre-acquisition losses etc	(128,800)	(53,773)
Prior year adjustments	(10,811)	-
Actual tax rebate net	(18,904)	(462)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,043,441 (2009 £1,184,789)
The Group has not yet provided deferred tax liabilities in respect of intangible assets totalling £240,581 (2009 £241,954)

19 Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £239,673 (2009 £101,100) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement.

In addition to his remuneration, ex-Chairman Graham J Duncan received consulting fees under the terms of a contract for services of £50,000 (2009 £56,667). John Anderson and Alan Bonner both received interest payments of £500 and £2,500 (2009 Nil) respectively during the year in accordance with the terms of their unsecured convertible loan notes (see note 16.2). There are no other related party transactions recorded during the year to 30 September 2010 or to 30 September 2009.

20 Contingent liabilities

There were no contingent liabilities at 30 September 2010 or 30 September 2009.

21. Capital commitments

There were no capital commitments at 30 September 2010 or 30 September 2009.

22 Risk management

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, investments and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors.

22.1 Cash and liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to ensure continuity of funding by a combination of loan note funding and available bank facilities.

22.2. Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has an agreed bank overdraft facility with HSBC of £80,000 which remained unused at the year end (2009 £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22.3. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash and cash equivalents, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity on page 23.

22.4. Credit risk

The Group's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. The principal credit risk arises from trade receivables. Aged receivables reports are reviewed monthly and any balances greater than 60 days are reported to the CEO. The credit control function follows a policy of sending reminder letters that start once an invoice is over 30 days overdue. These culminate in a legal letter with the threat of legal action. In a limited number of cases, legal action has been pursued.

An aged analysis of receivables is shown in Note 14 to the financial statements.

22.5. Risk Management Analysis

The information below provides an analysis of the financial assets and liabilities within the scope of IAS 39 Financial Instruments Recognition and Measurement, required by IFRS 7 Financial Instruments Disclosure. An analysis of the principal balance sheet sums, relevant to an analysis of risk management, is as follows:

	Loans and receivables £	Non-financial assets £	Balance Sheet Total £
2010			
Trade and other receivables	1,220,871	-	1,220,871
Other current assets	-	73,190	73,190
Cash and cash equivalents	697,189	-	697,189
	1,918,060	73,190	1,991,250
	Loans and receivables £	Non-financial assets £	Balance Sheet Total £
2009			
Trade and other receivables	929,848	-	929,848
Other current assets	-	25,745	25,745
Cash and cash equivalents	586,222	-	586,222
	1,516,070	25,745	1,541,815
	Other financial liabilities at amortised cost £	Other liabilities not within scope of IAS 39 £	Balance Sheet Total £
2010			
Trade and other payables	1,764,434	80,000	1,844,434
Finance lease liability - current	27,115	-	27,115
Long-term borrowings - non-current	-	136,590	136,590
Finance lease liability - non-current	22,538	-	22,538
	1,814,087	216,590	2,030,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22.5 Risk Management Analysis (continued)

	Other financial liabilities at amortised cost	Other liabilities not within scope of IAS 39	Balance Sheet Total
	£	£	£
2009			
Trade and other payables	1,591,771	-	1,591,771
Long-term borrowings - current position	-	12,494	12,494
Finance lease liability - current	20,306	-	20,306
Long-term borrowings - non-current	125,000	15,618	140,618
Finance lease liability - non-current	23,141	-	23,141
	1,760,218	28,112	1,788,330

	0 to 60 days	61 days to 6 months	6 months to 12 months	12 months to 2 Years	2 Years to 5 Years	Total
2010						
Trade payables	794,188	173,818	-	-	-	968,006
Long-term borrowings	-	-	-	207,090	-	207,090
Finance lease liabilities	6,661	13,321	19,982	6,852	2,837	49,653
	800,849	187,139	19,982	213,942	2,837	1,224,749

	0 to 60 days	61 days to 6 months	6 months to 12 months	12 months to 2 Years	2 Years to 5 Years	Total
2009						
Trade payables	372,240	143,856	106,369	-	-	622,465
Long-term borrowings	-	-	-	-	125,000	125,000
Finance lease liabilities	5,467	10,933	16,400	32,800	5,958	71,558
	377,707	154,789	122,769	32,800	130,958	819,023

23 Ultimate controlling party

There is no ultimate controlling party

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE TELECOM GROUP PLC

We have audited the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2010 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 18, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE TELECOM GROUP PLC (CONTINUED)

Other matter

We have reported separately on the group financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2010

Andrew Howe (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
1/4 Atholl Crescent
Edinburgh
EH3 8LQ
21 February 2011

BALANCE SHEET (PARENT COMPANY)
as at 30 September 2010

	Note	2010 £	2009 £
Fixed Assets			
Tangible assets	4	-	139
Fixed asset investments	5	2,496,792	2,235,835
Total non-current assets		2,496,792	2,235,974
Current assets			
Debtors	6	742,296	726,126
Cash and cash equivalents		365,225	135,927
Total current assets		1,107,521	862,053
Creditors amounts falling due within one year	7	(1,035,940)	(987,252)
Net current assets / (liabilities)		71,581	(125,199)
Total assets less current liabilities		2,568,373	2,110,775
Creditors amounts falling due after one year	8	(175,000)	(125,000)
		2,393,373	1,985,775
Capital and reserves			
Called up share capital	10	5,481,009	5,316,488
Share premium account	11	3,560,331	3,238,902
Merger reserve		283,357	114,392
Profit and loss account	11	(6,931,324)	(6,684,007)
Shareholders' funds	12	2,393,373	1,985,775

Approved by the Board and authorised for issue on 21 February 2011



A J Bonner
Director

The accompanying accounting policies and notes form part of these financial statements

COMPANY NUMBER 05259846

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY)

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

1.2. Profit and loss account and cash flow statement

The Parent Company has taken advantage of section 480 of the Companies Act 2006 and has not included its own profit and loss account and cash flow statement in the financial statements. The Parent Company's loss for the year was £247,317 (2009 £888,811)

1.3 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated)

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Computer equipment – straight line over 3 years

1.5 Investments

Fixed asset investments are stated at cost less provision for diminution in value

1.6 Pensions

The Company does not currently offer a pension scheme for the benefit of its employees

1.7 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted

2 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Parent Company's annual accounts was £7,000 (2009 £7,000)

3 Taxation

	2010 £	2009 £
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(247,317)	(888,811)
multiplied by standard rate of UK corporation tax of 28% (2009 28%)	(69,249)	(248,867)
Effects of:		
Depreciation in excess of capital allowances	(85)	(154)
Tax losses carried forward	29,136	249,021
Group relief surrendered	40,198	–
	69,249	248,867
Current tax charge	–	–

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

4. Tangible fixed assets

	£
Cost	
At 1 October 2009 and at 30 September 2010	6,165
Depreciation	
At 1 October 2009	6,026
Charge for the year	139
At 30 September 2010	6,165
Net book value	
At 30 September 2010	-
At 30 September 2009	139

5 Fixed asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 October 2009	6,112,642
Additions – Solwise Telephony Limited – initial consideration	180,957
- Solwise Telephony Limited – contingent consideration	80,000
At 30 September 2010	6,373,599
Provisions for diminution in value	
At 1 October 2009	3,876,807
Charge for the year	-
At 30 September 2010	3,876,807
Net book value	
At 30 September 2010	2,496,792

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
Glen Communications Limited	Scotland	Ordinary	100
Explore IT Limited	England and Wales	Ordinary	100
Pinnacle Technology Consulting Limited (1)	Scotland	Ordinary	100
I G Software Limited	England and Wales	Ordinary	100
Pinnacle Telecom plc	Scotland	Ordinary/Preference	100
Pinnacle Mobile Limited	England and Wales	Ordinary	100
Sports Club Telecom Limited	Scotland	Ordinary	100
Straiton Group Management Limited (2)	Scotland	Ordinary	100
Pinnacle Group Limited	Scotland	Ordinary	100

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

5 Subsidiary undertakings (continued)

Colloquium Limited	Scotland	Ordinary/Preference	100
Glen Group Limited (3)	Scotland	Ordinary	100
ICT Investments Limited	Scotland	Ordinary	100
Pinnacle ICT Limited	England and Wales	Ordinary	100
Pinnacle Data Limited	England and Wales	Ordinary	100
Straiton Resourcing Limited	Scotland	Ordinary	100
Straiton Learning Services Limited	Scotland	Ordinary	100
Accent Telecom UK Limited	England and Wales	Ordinary	100
Sipswitch Limited	England and Wales	Ordinary	100
Solwise Telephony Limited	England and Wales	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

Company	Principal activity	Capital and reserves 2010 £	Profit/(loss) for the year 2010 £
Glen Communications Limited	Telecommunications	(1,705,376)	34,866
Explore IT Limited *	IT services	(242,394)	(3,363)
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,289	-
I G Software Limited	IT consultancy	278,685	(21,069)
Pinnacle Telecom plc	Telecommunications	171,119	163,897
Pinnacle Mobile Limited *	Telecommunications	(73,401)	12,274
Solwise Telephony Limited	Telecommunications	84,216	114,559
Sports Club Telecom Limited *	Telecommunications	33,185	14,983
Accent Telecom UK Limited	Telecommunications	343,010	155,529
Sipswitch Limited	Voice over Internet	(27,325)	(27,519)
Colloquium Limited *	ISP and telecommunications	(230,637)	(54,219)
Straiton Group Management Limited (2)	Holding company	(176,203)	-
Pinnacle Group Limited	Holding company	460,000	-
Glen Group Limited (3)	Dormant	2	-
ICT Investments Limited	Dormant	24,522	-
Pinnacle ICT Limited	Dormant	2	-
Pinnacle Data Limited	Dormant	2	-
Straiton Resourcing Limited	Dormant	2	-
Straiton Learning Services Limited	Dormant	2	-

1 Formerly Eclectic Group Limited

2 Formerly Eclectic Holdings Limited

3 Formerly Pinnacle Telecom Group Limited

Note

* On 30 September 2010, in order to simplify the administration of the group and reduce overheads, the assets and liabilities of the companies marked with an asterisk (*) above were hived-up into Glen Communications Limited at par value

Associate company

As part of the acquisition of Accent Telecom UK Limited in 2009, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. The investment in the associate company is carried using the fair value of the identifiable assets at 30 September 2010 and is adjusted for the Group share of revenues and expenses in the year. Stripe21 Limited has an accounting reference date of 30 June.

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

6 Debtors	2010 £	2009 £
Amounts owed by subsidiary undertakings	730,075	708,927
Other debtors	-	-
Prepayments and accrued income	12,221	17,199
	742,296	726,126
7 Creditors' amounts falling due within one year	2010 £	2009 £
Bank loans and overdrafts	-	-
Trade creditors	47,210	107,276
Corporation tax	-	3,266
Other taxes and social security costs	62,334	33,499
Other creditors	40,813	-
Contingent consideration – Solwise Telephony Limited - short term element	30,000	-
Accruals and deferred income	855,583	843,211
	1,035,940	987,252
8 Creditors' amounts falling due after more than one year	2010 £	2009 £
Convertible loan notes	125,000	125,000
Contingent consideration – Solwise Telephony Limited – long term element	50,000	-
Analysis of loans		
Wholly repayable within five years	175,000	125,000

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2009, notes for a nominal value of £125,000 were issued at par. The loan notes are not transferrable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes will become repayable on demand in the event of a specified default by Pinnacle.

The loan notes are convertible into ordinary shares by Pinnacle at any time after 30 September 2011, or by the holders of the loan notes at any time following the period of thirty days after 30 September 2011. The conversion price is at a discount of 15% to the mid-market price per ordinary share as at close of business on the date five days after service of the relevant conversion notice, subject to a minimum of nominal value. The ordinary shares to be issued will rank par passu in all respects with the ordinary shares in issue. Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 if the group requires additional funding within the next 12 months.

Interest accrues on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

9. Pension and other post-retirement benefit commitments

No contributions to company pension schemes were made during the year (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

10 Share capital

	2010 £	2009 £
Authorised		
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	2,386,420
3,000,000,000 Ordinary shares of £0.001 each authorised 31 March 2010	3,000,000	-
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	9,000,000	6,000,000
Allotted, called up and fully paid		
1,702,907,630 Ordinary shares of £0.001 each	1,702,908	1,702,908
164,521,428 Ordinary shares of £0.001 each issued during the year	164,521	-
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	5,481,009	5,316,488

11 Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 October 2009	3,238,902	(6,684,007)
Share Premium on placing 22 September 2010	321,429	-
Loss for the year	-	(247,317)
Balance at 30 September 2010	3,560,331	(6,931,324)

12 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Opening shareholders' funds at 1 October	1,985,775	2,220,077
Loss for the financial year	(247,317)	(888,811)
Issue of shares on placing	128,571	-
Issue of shares on acquisition	35,950	508,808
Share Premium – premium on shares issued in placing	321,429	-
– expenses recovered from prior year disposal of discontinued operations	-	31,309
Merger reserve – premium on shares issued on acquisition	168,965	152,642
– expenses on share issue	-	(38,250)
Net increase/(depletion) in shareholders' funds	407,598	(234,302)
Closing shareholders' funds at 30 September	2,393,373	1,985,775

The Company has taken advantage of the merger relief provisions in relation to the acquisition of Solwise Telephony Limited. The Merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

13 Directors emoluments

	2010 £	2009 £
Emoluments for qualifying services	193,636	172,796
	193,636	172,796

Emoluments disclosed above include the following amounts paid to the highest paid Director

	2010 £	2009 £
Emoluments for qualifying services	143,169	126,927
Company pension contributions to money purchase schemes	-	-

14 Employees

Number of employees

The average monthly number of employees (including Directors) during the year was

	2010 Number	2009 Number
Management	5	3
Administration	-	-
	5	3

	2010 £	2009 £
Employment costs		
Wages and Salaries	239,693	223,305
Social security Costs	27,594	22,213
Other pension costs	-	-
	267,287	245,518

15. Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £239,673 (2009 £101,100) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement.

In addition to his remuneration, ex-Chairman Graham J Duncan received consulting fees under the terms of a contract for services of £50,000 (2009 £56,667). John Anderson and Alan Bonner both received interest payments of £500 and £2,500 (2009 Nil) respectively during the year in accordance with the terms of their unsecured convertible loan notes (see note 16.2).

There are no other related party transactions recorded during the year to 30 September 2010 or to 30 September 2009.

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TELECOM GROUP plc
Registered in England and Wales with registered number 5259846

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of the Company will be held at the offices of Wright, Johnston & Mackenzie LLP, 18 Charlotte Square, Edinburgh, EH2 4DF, on 28 March 2011 at 10 30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1-5 will be proposed as Ordinary Resolutions and resolution 6 will be proposed as a Special Resolution

ROUTINE BUSINESS
Ordinary Resolutions

- 1 To receive the report of the directors and the financial statements for the year ended 30 September 2010 together with the report of the auditors thereon
- 2 To approve the report of the board to the members on directors' remuneration for the year ended 30 September 2010
- 3 To re-elect Mr John C Anderson, a director who retires by virtue of rotation and, being eligible, offers himself for re-election
- 4 To re-appoint Grant Thornton UK LLP as the auditors
- 5 To authorise the directors to agree the remuneration of the auditors

SPECIAL BUSINESS

Special Resolution

6 That

(a) That, in accordance with section 551 of the Companies Act 2006 (the "2006 Act"), the Directors be generally and unconditionally authorised to allot shares or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") in the Company up to an aggregate nominal amount of the unissued share capital of the Company provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date of the Annual General Meeting of the Company to be held in 2012 or 15 months after the date of the passing of this resolution (whichever is the earlier) save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired

This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 80 of the Companies Act 1985 or section 551 of the 2006 Act

(b) the directors of the Company be and are hereby empowered pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) of the Company for cash pursuant to the general authority conferred on the Directors by paragraph (a) of this resolution as if section 561(1) of the 2006 Act did not apply to such allotment, provided that this power shall

(i) be limited to the allotment of equity securities up to an aggregate nominal amount of the unissued share capital of the Company, and

(ii) expire on the date of the Annual General Meeting of the Company to be held in 2012 or 15 months after the date of the passing of this resolution (whichever is the earlier) (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

Registered Office
5 Fleet Place
London
EC4M 7RD
Dated 21 February 2011

By order of the Board
WJM Secretaries Limited
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TELECOM GROUP (CONTINUED)

Registered in England and Wales with registered number 5259846

Notes

1 A member is entitled to appoint another person as his proxy to attend and speak and vote on his behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. The proxy need not be a member of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Computershare Investor Services plc on 0870 707 1017.

2 To be valid a form of proxy, together with a power of attorney or other authority, if any, under which it is executed or a notanally certified copy thereof, must be deposited at the offices of Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time for holding the meeting or adjourned meeting.

3 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

4 In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.

5 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at the close of business on 26 March 2011 shall be entitled to attend and vote, whether in person or by proxy, at the Annual General Meeting, in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries in the register of members after the close of business on 26 March 2011 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. If the Annual General Meeting is adjourned, entitlements to attend and vote will be determined by reference to the register of members of the Company as at the close of business two days before the time of the adjourned meeting.

6 Completion and return of the form of proxy will not preclude members from attending or voting in person at the meeting if they so wish.

7 As at 18 February 2011 (being the last business day prior to the publication of this notice) the Company's issued voting share capital consists of 1,867,429,059 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 18 February 2011 are 1,867,429,059.

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TELECOM GROUP plc (CONTINUED)

Registered in England and Wales with registered number 5259846

EXPLANATORY NOTES TO THE RESOLUTIONS ROUTINE BUSINESS

The following notes explain the items of routine business

Resolution 1 (Receipt of reports and accounts)

The directors must lay the annual accounts and the respective reports of the directors and auditors before shareholders at an Annual General Meeting

Resolution 2 (To approve the directors' remuneration report)

Shareholders are asked to approve the directors' remuneration report which may be found in the annual report on pages 10 to 12. This resolution is an advisory one and no entitlement to remuneration is conditional on the resolution being passed

Resolution 3 (Re-election of director)

Under the Articles of Association of the Company, one director must resign by rotation each year. John C Anderson has put himself up for resignation and is therefore standing for re-election. You are therefore asked to re-elect Mr Anderson as a director of the Company.

Resolution 4 (Appointment of auditors)

At each general meeting at which accounts are laid before the members, the Company is required to appoint auditors to serve until the next such meeting. Grant Thornton UK LLP have indicated their wish to continue as the Company's auditors.

Resolution 5 (Agreement of auditors' remuneration)

The directors are seeking authority to agree the remuneration of Grant Thornton UK LLP as the Company's auditors.

SPECIAL BUSINESS

In addition to the routine business of the Company, there will be the following items of special business at the Annual General Meeting:

Resolution 6 (Authority to issue Ordinary Shares and waiver of Pre-emption Rights)

By resolution 6(a), you are asked to give the directors authority to allot share capital up to the maximum authorised share capital. This authority shall remain in force until the 2012 AGM or for 15 months (whichever is earlier).

By resolution 6(b), you are asked to give the directors authority to disapply the statutory pre-emption rights in favour of existing shareholders in respect of share allotments in the Company. This authority shall remain in force until the 2012 AGM or for 15 months (whichever is earlier).

DIRECTORS, SECRETARY AND ADVISERS

Directors William Allan, Non-Executive Chairman
Alan J Bonner, Chief Executive Officer
John C Anderson, Non-Executive Director

Secretary WJM Secretaries Limited
302 St Vincent Street
Glasgow, G2 5RZ

Company number 05259846

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West Riverside
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Solicitors Charles Russell LLP
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Wnght, Johnston & Mackenzie LLP
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EH3 8LQ

Bankers HSBC Bank plc
Commercial Centre
St Clair House
Bedford Road
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