

Alternative Networks' performance for the year as a whole has been very creditable, given how customer spending declined as the full impact of the economic downturn began to be felt. This resulted in a reduction in sales of 4%, from £93.7m to £89.7m. EBITDA was reduced from £10.8m in 2008 to £8.9m in the year.

More importantly, the business has continued to be strongly cash generative. Free cash flow actually increased year on year, and the Group ended the year with net funds of £8.1m, more than double the position of £3.2m a year earlier. This was after returning £3.4m of cash to shareholders by way of share buy-backs and dividends.

The strong cash position and continued high visibility of earnings has enabled the Board to increase the proposed full year dividend by 11% to 5.1p.

In response to the difficult market conditions, the Group's management took prompt and sensible action. £2.5m of expected annualised cost savings were implemented. We retained most of our considerable direct sales force and a concerted effort was made in deriving additional revenues from existing customers and in keeping customer attrition low; and a number of significant new customers were signed up. In addition, the earlier investment in internal systems and the restructuring put in place in the previous year were well timed, as it provided the infrastructure to make the business leaner and more efficient, without detracting from the quality of service. All of this has enabled the Group to achieve its revised targets for the year, which is a tribute to the hard work and commitment of all staff.

Despite this environment, the Group was able to increase its market share, with the number of mobile subscribers increasing by 6% and office based connections up 29%. The Group's ability to cross-sell its offering of services was reflected by a 10% increase in high spending customers taking three or more products.



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NON-EXECUTIVE CHAIRMAN

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Since the year end, the Group completed the acquisition of Aurora Kendrick James Limited (AKJ), whose billing software and products have been an important tool in maintaining high standards of customer service for the Group. Bringing AKJ in-house will protect a key part of the Group's intellectual property, as well as creating additional sources of revenue. This has already been demonstrated through the signing of a new contract with a major network operator to manage the billing and customer services of over fifty larger customers. AKJ should also enable more efficient integration of future acquisitions.

The outlook for the Group is positive. Market conditions remain challenging but stable. With a strong balance sheet, a committed management team and a sound and proven strategy, we are optimistic of a favourable outcome for the current year.

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NON-EXECUTIVE CHAIRMAN
7 DECEMBER 2009



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