

INTRODUCTION

The Board of Alternative Networks plc is committed to the highest standards of corporate governance in so far as it is practical for a Group of its size and although not a requirement of the Alternative Investment Market (AIM), the Group has complied with the provisions of the Combined Code 2008 (the "Code") except as explained in the report below. The Group though is not required to adhere to the provisions of the Code and this report is a voluntary statement.

The Group has applied the exemption applicable to smaller companies (outside the FTSE350) in the Code that states that no one Non-executive Director should sit on all three principal Board Committees simultaneously. In addition, it has also applied the concession that smaller companies can have only two Non-executive Directors, rather than Non-executive Directors representing half of the Board. Although the Audit Committee does not meet the Code's requirement to have recent relevant financial experience, a senior representative from the finance department attends all Audit Committee meetings by invitation providing advice to the Committee members when required.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group and is accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value.

There is a clear division of the roles and responsibilities of the Chairman and the Chief Executive Officer which are set out in writing and have been agreed by the Board.

The Chairman is responsible for leading the Board and ensuring its effectiveness, setting the agenda for and conducting Board meetings, ensuring that all Directors receive sufficient, accurate and relevant information on financial business and corporate issues and maintaining effective communication with shareholders.

The Chief Executive Officer is responsible for the executive management and performance of the Group's business, the development, recommendation and implementation of the Group's strategy and budget and setting the overall policy and direction of all business operations.

The Board has a formal schedule of matters reserved for its decisions. The specific issues include the Group's overall strategy, the Group's acquisition and divestment policy, approval of key suppliers, approval of major capital expenditure projects and significant financing matters and all corporate governance and compliance matters. It monitors the exposure to key business risks and reviews the strategic direction of the business, annual budgets, progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers employee issues and key appointments.

Subject to the matters which it has reserved for itself, the Board has delegated authority for the management of the Group's business to the Chief Executive Officer who exercises this authority through delegation to members of the senior management team.

The Company Secretary is responsible for advising the Chairman and the Board on all matters concerning corporate governance. He supports the Chairman in ensuring the provision of accurate and relevant information to the Board and for ensuring that there is a flow of information within the Board and its Committees, and between senior management and Non-executive Directors.

The Group maintains appropriate insurance cover in respect of Directors' and officers' liabilities. This insurance cover does not provide cover in the event that the Director is proved to have acted fraudulently or dishonestly.

The Board, which is scheduled to meet monthly, met on eleven occasions in the current year, in addition to two off-site strategy meetings.

	Number of meetings in year	J Murray	E Spurrier	J Sewell	B Marnham	T Holland-Bosworth	T Caplin	K McGeorge
Board	11	11	9	9	11	7	11	10
Audit Committee	2	—	2	—	—	2	2	2
Remuneration Committee	3	—	—	—	—	3	3	3
Nomination Committee	1	—	—	—	—	1	1	1

BOARD BALANCE AND INDEPENDENCE

The Board of Directors of the Group comprises a Non-executive Chairman, four Executive Directors and two independent Non-executive Directors. Their biographical details on pages 18 to 19, demonstrate the range of experience and judgement they bring to bear on Board matters. The Board is satisfied that the Executive and Non-executive elements of the Board are well balanced, that no individual or group is or has been in a position to dominate the Board's decision making and that there is a substantial degree of independence and diversity.

Each of the Non-executive Directors is considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of his judgement. The Non-executive Directors are up for re-election on 19 January 2010 and as part of the re-election process, the Board will consider the independence of Timothy Holland-Bosworth, owing to his tenure since May 1999. Related party transactions are listed in Note 30. Despite the above, the Board still currently consider all the Non-executive Directors to be independent.

Having considered the position of each Non-executive Director, the Board is of the view that no current interests or prior interests of the Non-executive Directors will either influence or prejudice their objective and independent judgement or their ability to act in the best interests of the Group.

The Board is satisfied that each of the Non-executive Directors commits sufficient time to the fulfilment of his duties as a Director of the Group.

PERFORMANCE EVALUATION

A performance evaluation of the Board is undertaken annually by the Group's Business Excellence department using a detailed questionnaire and follow up interviews with Board members. The questionnaire includes consideration of the behaviour of the Board and its processes. The report on the evaluation of the Board is considered and discussed by the Board and specific actions agreed.

The Board has established a framework for the induction of all newly appointed Directors which includes the provision of corporate information and meetings with Directors and members of the senior executive team.

BOARD COMMITTEES

The Board has established a number of standing committees and has delegated certain responsibilities to each of those committees. The principal Board Committees are the Audit, Remuneration and Nomination Committees.

REMUNERATION COMMITTEE

The membership and a summary of the terms of reference of the Remuneration Committee can be found in the Remuneration Report on page 27.

AUDIT COMMITTEE

During the year the membership of the Committee comprised: Tony Caplin (Chairman), Timothy Holland-Bosworth and Kenneth McGeorge. The members of the Committee are considered by the Board to be independent Non-executive Directors.

ROLE OF THE AUDIT COMMITTEE

The Board has delegated to the Committee responsibility for overseeing, on behalf of the Board, the financial reporting and internal control of the Group.

To this end, the Committee is responsible for:

- Reviewing the form and content and monitoring the integrity of the Group's financial statements.
- Reviewing the effectiveness of the Group's internal control system (including financial, operation and compliance controls and risk management).
- Reviewing the effectiveness of the Group's internal audit function.
- Selecting and recommending to the Board the appointment, reappointment or removal of the external auditors.
- Reviewing the independence and objectivity of the external auditors and the effectiveness of the audit process.
- Approving the remuneration and terms of engagement of the external auditors.
- Approving and subsequently reviewing a policy of engagement on the appointment of auditors to supply non-audit services.
- Agreeing annually with the auditors the nature and scope of the audit process.

AUDIT COMMITTEE (CONTINUED)

AUDIT COMMITTEE MEETINGS

The Committee met on two occasions during the financial year.

Attendees at Committee meetings held included: Chief Financial Officer, Financial Controller, and representatives of the external auditors. All of these attended at the invitation of the Chairman of the Committee.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE IN THE YEAR ENDED 30 SEPTEMBER 2009

On one of the two occasions the Committee met with the Group's external auditors in the absence of executive management.

The principal issues addressed by the Committee during 2008/9 were:

- The external auditors' year-end report for 2008, the review of the Group's preliminary results and Annual Report disclosures.
- The external audit plan for the 2009 financial statements, which included a review of the audit objectives, scope, timetable, deliverables and audit fee.
- The Group's risk management process.
- The impact of International Financial Reporting Standards (IFRS) as adopted by the EU, which were adopted by the Group for this year's interim and Annual Reports.
- The reappointment of PricewaterhouseCoopers LLP as external auditors.
- The Group's internal audit activities and the effectiveness of internal controls, including the consideration of the internal auditors' findings and recommendations and the external auditors' observations on internal financial controls arising from their annual audit and interim review.

INDEPENDENCE OF EXTERNAL AUDITORS

The Committee has adopted a policy on non-audit services designed to ensure that the provision of such services by the external auditors does not impair the auditors' objectivity and independence. The policy is based on the ICAEW Guidance for Audit Committees and defines both the type and value of services that require prior authorisation of the Committee and the services that the external auditors are prohibited from providing. The Committee annually reviews all non-audit services provided by the external auditors to ensure compliance with the policy. The Committee remains satisfied with the objectivity and independence of the Group's external auditors.

PricewaterhouseCoopers LLP have been the Company's auditors since 2000. The Audit Committee manages the relationship with the external auditors on behalf of the Board. It considers the reappointment of the external auditors each year, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. The last competitive audit review was in 2008, when PricewaterhouseCoopers LLP were reappointed by the Board on the recommendation of the Audit Committee. There are no contractual obligations that restrict the Audit Committee to recommend a particular firm for appointment as auditors.

NOMINATION COMMITTEE

During the year, the membership of the Committee comprised: Timothy Holland-Bosworth (Chairman), Tony Caplin and Kenneth McGeorge. The members of the Committee are considered by the Board to be independent Non-executive Directors.

During the year, the Committee met on one occasion and the Chief Executive Officer and Chief Financial Officer were invited to attend. The Committee meets as necessary to make recommendations to the Board on all new Board appointments and to consider executive and Board succession planning. The Committee has written terms of reference which are available from the Company Secretary.

INTERNAL CONTROL

The Directors are responsible for the Group's system of internal controls and for maintaining and reviewing its effectiveness. The Group's systems and controls are designed to safeguard the Group's assets and to ensure the reliability of information used within the business and for publication.

Systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The key features of the internal control systems, which operated throughout the period covered by financial statements and to the date of signing the accounts, are described below.

The Board has put in place an organisation structure with clearly defined lines of responsibility and delegation of authority to executive management. Individuals are formally made aware of their level of authority. The Group appoints experienced and professional staff of the necessary calibre to fulfil their allotted responsibilities.

Executive managers are required to produce a business plan for approval by the Board prior to the beginning of each financial year and detailed financial forecasts are formally produced during the year and reviewed by the Board.

Management accounts are produced each month and the financial results are measured against the business plan to identify any significant variations. The Board discusses financial and operational performance at its monthly meetings.

INTERNAL CONTROL (CONTINUED)

The Group has an internal audit function whose responsibilities include ensuring that internal controls are complied with. The Group's internal controls framework is reinforced by the Group's successful certification to both the ISO27001:2005 international information security standard and the ISO9001:2000 international quality management standard. During the year, four external ISO audits were conducted by the British Standards Institute and four billing and metering audits were conducted by the British Approvals Board for Telecommunications.

In addition to the above, the Group were also awarded the Metering and Billing certification by the British Approvals Board for Telecommunications for Mobile Services in July 2009.

The Group procedure for approving and controlling capital expenditure and investment appraisal requires approval of initial capital expenditure in the budgets by the Board. Approval of budgeted capital expenditure projects is made at various levels of senior management including the Board where required.

Throughout the year, the Group conducts an ongoing risk management evaluation process covering both financial and non-financial risks. This involves senior management and Executive Directors identifying areas of perceived risk and the existing control mechanisms in place to monitor those risks. Through a series of management workshops, attended by all Executive Directors and senior executives, the Board has reached consensus on those risks facing the Group that are considered business critical. The Group has implemented, and continues to implement, actions intended to manage and mitigate those key risks. During 2010, the Board will continue to review its risks and implement the necessary mitigating steps as those risks evolve and change.

FINANCIAL REPORTING

A review of the performance and financial position of the Group is included in the Business Review on pages 10 to 17. The Board uses this, together with the Chairman's Statement, Chief Executive Officer's Review and the Directors' Report, to present a balanced and clear assessment of the Group's position and prospects.

RELATIONS WITH SHAREHOLDERS

The Board is committed to and recognises the importance of effective communication with shareholders. Ongoing communication is achieved mainly through the publication of the Annual and Interim Reports, trading statements, the announcement of significant developments within the Group and the Annual General Meeting.

In addition to regular financial reporting, significant matters relating to trading or development of the business are released to the market by way of Stock Exchange announcements.

The Board is responsible for ensuring that dialogue with the shareholders takes place and is based on a mutual understanding of objectives. A series of meetings and presentations take place during the year with institutional investors to review the Group's performance and prospects. These presentations are made available via the Company's website.

The Annual General Meeting provides shareholders with an opportunity to meet the Chairman and other Directors, receive an update on the development of the business and to ask questions of the Board. The Annual Report and Accounts and the Notice of Annual General Meeting are sent to shareholders at least 21 days prior to the date of the Annual General Meeting. Shareholders have the opportunity to vote on each substantially different issue by the proposal of a separate resolution for each item of business. The results of the proxy votes received by the Group, including abstentions, are declared at the meeting, following votes by shareholders on a show of hands.

GOING CONCERN

After considering the Group's financial projections, borrowing facilities and other relevant financial matters, the Board is satisfied that on the date of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. The Group's trading performance during these difficult economic conditions has been discussed in the Chairman's and Chief Executive's Statements.

TONY CAPLIN**CHAIRMAN OF THE AUDIT COMMITTEE**

7 DECEMBER 2009