

The Directors present their report and audited financial statements of Alternative Networks plc and its subsidiaries (the "Group") for the year ended 30 September 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Group continues to be business communications focused on service provision and systems integration.

As a service provider, the Group supplies a range of services including managed network services, non-geographic number services, mobile phone and data services, and internet and broadband service provision. The Group also supplies, installs and maintains business telephone systems and associated integrated communications applications.

BUSINESS REVIEW

Please refer to the Financial and Business Review on pages 10 to 17 which discusses key performance indicators, principal risks and uncertainties, and future outlook.

DIVIDENDS

The Company paid a 2009 interim dividend of 1.60p per 0.125p ordinary share, with a total payment value of £705,000 (2008: £715,000). This was paid on 17 July 2009 to shareholders on the register on 3 July 2009.

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2009 of 3.50p per 0.125p ordinary share which will absorb an estimated £1,552,000 (2008: £1,383,000) of shareholders' funds. It will be paid on 26 January 2010 to shareholders who are on the register of members at 18 December 2009.

POST BALANCE SHEET EVENTS

Subsequent to the year end, the Company carried out three further share repurchases for cancellation. These took place on the 2, 6 and 8 October 2009. On these dates a total of 320,000 shares were bought back by the Company for an aggregate sum of £359,100. These shares were purchased as a means of returning excess levels of cash to shareholders.

On 30 October 2009 the Group acquired 100% ordinary shares of AKJ. AKJ is a provider of software and consultancy specialising in the telecommunications industry. This acquisition will help the Group to accelerate the development of its market-leading customer service portal and protect its existing exclusive rights over elements of the software. It also provides a platform for new revenue streams working with third party telecoms and IT service providers. Further details are provided in the Chief Executive's Review on page 6 and in Note 31.

The Group has also won by tender, a three year contract from October 2009 onwards, to bill and service 50 business clients with an annual turnover of £2.5m. Further details are provided in the Chairman's Statement on page 4.

DIRECTORS

The Directors who held office during the year and up to the date of signing these financial statements are given below:

J Murray
E Spurrier
J Sewell
B Marnham
T Holland-Bosworth
T Caplin
K McGeorge

SHARE SCHEMES

The Directors believe that a key element in attracting, motivating and retaining employees of the highest calibre is employee involvement in the performance of the Group through participation in share schemes. By doing so, the Directors believe that employees' interests will be more closely aligned with those of the shareholders. The schemes are described in the Remuneration Report.

ENVIRONMENTAL REPORT

The Directors recognise the importance and responsibility of ensuring that the Group's businesses are conducted with respect and care for the environment. Environmental management is regularly monitored by the Board through internal control risk management process.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

The Group is committed to operating in a socially and environmentally responsible manner and structures its policies, initiatives and practices accordingly, as we evolve as a business.

EMPLOYEE WELFARE

All employees are afforded equal opportunities in an environment which is free from unlawful or unfair discrimination. We strive to create a positive, nurturing and progressive employee experience, and offer a flexible reward and benefits package that encourages a healthy work/life balance and general well-being.

The Group takes pride in offering outstanding consultation and service, and therefore places great importance upon training and development. The business has a well-established in-house training academy, and over 89% (2008: 83%) of management roles are filled by internal applicants.

Effective two-way communication and teamwork is also critical in creating a positive and productive working environment and, in addition to conducting team building events and initiatives, we actively encourage regular employee feedback through staff committees. The Group also informs employees of the business' activities and performance through face-to-face briefings, weekly bulletins, and through Directors operating an open-door policy.

OUR ENVIRONMENTAL COMMITMENT

The Group appreciates the importance of sound environmental practice, and has implemented a structured programme of green campaigns to help increase awareness and change employee behaviour. Members of staff share responsibility for improving the Group's practices, and our aim is to progressively reduce our environmental impact.

One of the Group's key policies is to reduce the amount of waste generated by 30% over the next two years. We expect to achieve this target through measures such as producing electronic rather than hard-copy communications; using reusable utensils instead of disposable items; and operating printing restrictions, such as duplex printing. We have already reduced the amount of paper our invoices use by 15%, and will significantly reduce our paper consumption with the launch of a paperless billing system in December 2009.

The Group understand the vital role of recycling in the treatment of unavoidable waste, and in 2009 recycled around 8 tonnes of waste. We have introduced additional recycling stations across all sites and are increasing the amount and type of materials we recycle. Consequently, we have seen an increase in the recycling of cans and plastics by 110%. The Group is working to double the volume of waste that is recycled and is implementing a recycling service for clients' unwanted mobile devices.

Having targeted lowering our water consumption, the Group is now within the good practice benchmark set out by the Carbon Trust. This was achieved within the 12 months promised, and equates to a usage reduction of 7% per person. We are also actively seeking to lower our energy use.

Although travel to and between offices is inevitable, the Group is committed to reducing the environmental impact of such transportation. We have developed conferencing facilities within all offices and have introduced a central London office designed for flexible workers with hot desking facilities. Home working and flexible hours have been introduced for applicable members of staff, while a series of employee benefits – an extra holiday purchase scheme and sabbaticals for long-term staff, for example – also encourages less business travel.

Restricting flights between offices to Board-approved emergencies only and the operation of a Ride-to-Work cycle scheme further help reduce our carbon footprint. Scheduling for field engineers has also been revised to minimise time spent on the road.

In addition to concentrating on our environmental record, the Group has continued its policy of inspecting our suppliers' green credentials. By examining the CSR statement of prospective suppliers, we ensure we work with companies with comparable environmental and ethical standards. We have increased the number of environmentally friendly products we use – including recycled paper, energy from renewable sources, energy efficient appliances, and company vehicles with low CO₂ emissions and fuel consumption – and strive to find new ways to lower the business impact of the Group.

COMMUNITY INVOLVEMENT

As a multi-site business, the Group has chosen to forge links with smaller local charities, including most recently, the Paul D'Auria Cancer Support Centre and Centrepoint. In addition to the Group making financial donations, our Charity Committee organises and manages regular fundraising activities and events.

CHARITABLE DONATIONS

During the year charitable donations of £7,962 (2008: £7,340) were made to local and health related charities. This includes donations of £2,000 to Centrepoint and £2,450 to the Anthony Nolan Trust.

PAYMENT TO CREDITORS

The Group has a variety of payment terms with its suppliers. The Group agrees payment terms with its suppliers when it enters into binding purchasing contracts for the supply of goods and services. Its suppliers are made aware of these terms. The Group seeks to abide by these payment terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 30 September 2009 the amount of trade payables shown in the balance sheet represents 47.3 days of average purchases of the Group (2008: 49.7 days) and 50.6 days for the Company (2008: 55.1).

EMPLOYEES

The Directors believe that the Group's employees are a source of competitive advantage. The Directors recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain employees of the highest calibre.

The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, nationality, race, colour, ethnic or national origin, religion, disability or sexual orientation or is disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified. Entry into and progression within the Group are solely determined by the application of job criteria, personal attitude and competence.

It is the Group's policy to apply best practice in the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised in the business and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment.

All staff members are informed of matters concerning their interest as employees and the financial and economic factors affecting the business. Established management communication channels have been supplemented by direct presentations to staff by Directors to explain developments of particular significance.

FINANCIAL RISK MANAGEMENT

Financial risk management is disclosed within Note 3 of the accounts.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each Director of the Group, in office at the time of approval of this report, acknowledges that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

INDEPENDENT AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Group will be submitted to the forthcoming Annual General Meeting.

SHARE REPURCHASE

The Company continued its share buy-back scheme that it began in the last financial year. The scheme was entered into as the Company had funds surplus to the operational requirements of its continuing activities. In arriving at the level of cash available to be returned to shareholders, the Board took into account the levels of funding remaining in the Group to enable it to meet its working capital requirements.

During the financial year the Group bought back 1,166,803 ordinary shares for cancellation that each had a nominal value of 0.125p. These made up approximately 2.60% of shares in issue at the time and were for a total consideration of £1,356,202.

EDWARD SPURRIER

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

7 DECEMBER 2009