

TRADING REVIEW BY PRODUCTS

MOBILE

	2009	2008
Turnover (£'m)	41.6	43.6
Gross profit (£'m)	12.4	12.9
Gross margin %	29.9%	29.7%
Subscribers at 30 September	55,299	51,990
Monthly ARPU (£)	53	60
Monthly average contract length	22m	22m
Gross new connections in year	16,429	18,465
Network churn	20%	16%
Customer churn by value	15%	15%
% subscribers in-contract	82%	85%
Data connections (included in above)	23,146	17,362
Data connections as % of total subscribers	41.9%	33.4%

Group mobile revenues decreased by 5% to £41.6m (2008: £43.6m), as average revenue per user (ARPU) of existing customers declined 12%, but this was offset by some new revenues arising from an encouraging net increase in customer numbers, as the Group made gains in market share.

“ARPU” represents the average spend in line rental and usage charges per live connection per month. It has reduced by 12% to £53 in this period. In our interim announcement, we spent some time explaining the ARPU drop to £55, citing the reduced roaming of business employees abroad, increase in zero usage devices, with the balance of the negative impact on ARPU being attributed to the lower level of UK activity, and more competitive tariffs in the market place. When reviewing the impact over a full year, it is clear that over half the impact has come from lower international revenue whether roamed or originating in the UK.

→ ARPU levels for international call revenues are £4 lower on average. Nearly a third of the reduction seems to be due to lower volume of calls which were down nearly 4% year on year. The remainder is due to tariff changes. Some is due to the July 2009 regulatory reduction in EU SMS prices, but the majority is due to lower tariffs, set by the major operators.

→ The remainder of the reduction in ARPU was caused by lower use of mobile devices in the UK, and lower tariffs. The main tariffs introduced by the networks in 2009 brought in free calls between same network users and also total fleet bundles. Both had an ARPU reducing impact.

Assuming no pick up in economic activity, the trends on ARPU reduction are set to continue into 2010, but at a lower rate. The ARPU in September 2009 was £51.50.

The business subscriber base for the Group has increased 6% from 51,990 to 55,299 subscribers:

→ Net additions in the year were 3,309 (2008: 6,270), reflecting continued gains in market share by the Group. Significant new clients included Fidessa plc and British Car Auctions Limited. The second half of the year was somewhat weaker than the first half, with only just over 1,000 net gains. Gross connection gains held up well in a quieter summer period with 7,900 compared to 8,500 in the first half. Overall new gross connections were 12% behind 2008, which is considered a solid performance when companies were contracting and new connections which previously arose from natural expansion had ceased. The lower level of net gains in the second half are reflected in the increased network churn as companies reduced their fleets due to downsizing their businesses.



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→ The healthy cash conversion continues to highlight the Group's strong control over working capital and its prudent accounting policies.

→ **Mobile**

→ Gross margins performed well in spite of the drop in ARPU, and came in slightly ahead of 2008 and expectations. Margins on line rental and usage charges were each ahead of 2008, in spite of the reduced spend.

→ The customer churn by value we also measure was reassuringly consistent and low at 15% as in 2008.

→ **Network Services**

→ WLR revenues increased from £8.8m to £10.7m, an increase of 22%.

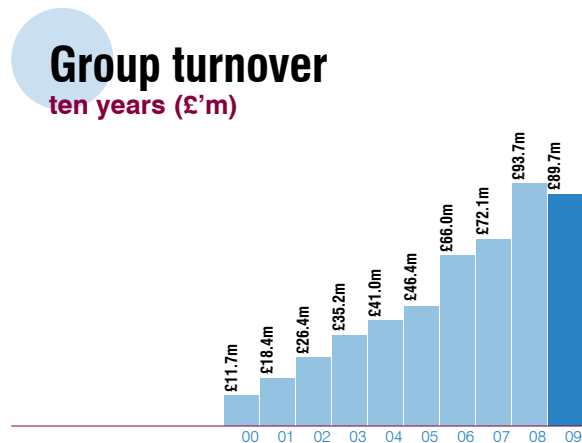
→ **Advance Solutions**

→ Maintenance revenues have increased 5% from £4.4m in 2008 to £4.6m in 2009. This was a positive performance after the loss of two of the largest Echo customers in 2008.

→ Data connections grew rapidly and ahead of expectations. They now represent 41.9% (2008: 33.4%), of total connections. "Converged devices" (this is measured as a data connection which has passed voice traffic in the last three months e.g. BlackBerry/MS mail), continue to gain widespread currency with cheaper BlackBerry models launched this year. The number of converged devices has grown over 40% (2008: 50%) in the year to over 15,000 connections (2008: 10,700), and they now account for over one in four of existing connections. This trend is expected to continue over the year ahead. Data-only devices such as "dongles" increased to 8,100, up from over 6,000 last year. These continue to dilute ARPU but remain a core part of servicing and retaining business clients.

→ Churn – it was a solid performance in keeping churn under control. Network churn for the Group was 19.7% up from 16% in 2008. Nearly 2.5% of this increase was due to customers switching networks in the hunt for lower prices, but remaining with the Group. It remained in line with expectations set by the Board. The customer churn by value we also measure was reassuringly consistent and low at 15% as in 2008.

Mobile gross margins performed well in spite of the drop in ARPU, and came in slightly ahead of 2008 and expectations. Margins on line rental and usage charges were each ahead of 2008, in spite of the reduced spend, due largely to better buying and less discounting on the networks' new products. In the Interim Report, we highlighted the £0.3m lower level of network contributions than 2008 which was pulling margins down below 30%. This continued in the second half, but margins were helped by bundled tariffs which required lower hardware subsidies to customers. The outlook for margins remains steady and we look to remain in the target band of 29–31% we have occupied in the last four years.



NETWORK SERVICES

	2009	2008
Turnover (£'m)	£33.8	£34.9
Gross profit (£'m)	£12.9	£14.4
Gross margin %	38.2%	41.1%

Outbound KPIs

Outbound – monthly ARPU (£)	1,080	1,101
WLR as a % of total outbound revenues	40%	32%
Number of lines/channels	67,587	52,262
Average new customer contract length (months = "m")	19m	16m

Inbound KPIs

Turnover (£'m)	£6.9	£7.1
Gross margin %	53.7%	58.4%

Group sales decreased marginally by 3% from £34.9m to £33.8m. As in prior periods, the decline in call revenues continues to overshadow the increased momentum in customer wins as is illustrated by the increased Wholesale Line Rental (WLR) base size.

Gross margins were overall down 2.9%, and were in line with revised expectations. The reasons for the decline were as follows:

- 1.2% was due to a change in outbound sales mix substituting £2m of minutes with new line rentals.
- 1.0% was due to reduced outbound minutes revenues, both tariff reductions and lower volumes.
- 0.3% was due to loss of commissions due from BT for MPLS circuits: Echo used to receive commissions from BT, which were discontinued in late 2008. The gross profits and revenues in 2008 benefited from an additional £125,000 at 100% margin, which accounted for 0.3% margin reduction.
- 0.4% was due to modest margin erosion in the inbound 0870 revenues as the customer base substituted to less profitable products.

OUTBOUND SERVICES

Outbound revenues declined 3.5% to £26.8m (2008: £27.8m). Usage charges declined even further, falling 16% from £18.6m to £15.7m. Offsetting this was the growth in line rental revenues highlighted below. It is worth noting that while minutes revenues have continued to decline due to lower activity levels and reduced prices, there was overall growth in revenues in the second half of 2009 against the first half, albeit marginal. Some major customer wins such as Hydrogen Group and Nestor Healthcare Group have helped reverse the prevailing economic trend.

Usage revenues' decline has been reviewed in detail. It was noted that in spite of the number of lines growing by 29%, the number of minutes fell 5% year on year, indicating a significant economic reduction as well as the ongoing impact of changes in technology and the ascendancy of mobile in the workspace. The average call value fell 15% year on year, with price drops spread across the main destinations.

WLR revenues increased from £8.8m to £10.7m, an increase of 22%. The lines under contract grew 29% on a like for like basis across the Group, with ISDN30 channels growing by the same rate and continuing to account for 53% of total lines. WLR now accounts for 40% and at the year end, the run rate was for nearly £12m of WLR revenues.

Monthly ARPU has fallen £21 to £1,080 over the year. Essentially, it is holding fairly steady, with continued cross-selling of WLR and the addition of larger customers to the base offsetting the impact of lower usage across the entire customer base.

Average new contract lengths have increased to 19 months, as increasing numbers of customers also taking mobile services sign up for two years.

INBOUND SERVICES

Inbound services could not match its growth of 2008, when it was up 13% organically. In spite of new client wins and very few client losses, revenues were also down marginally, by 3% to £6.9m. The major impact on revenues was the migration by several of the top spending clients to lower revenues number ranges such as 0844 and 0845, and then the removal of 0870 revenue share in August 2009. This was long heralded. The run rate of revenues following the regulation changes in August 2009 and some key number translations is closer to £6m than £7m, albeit with slightly higher margins.

ADVANCED SOLUTIONS

	2009	2008
Turnover (£'m)	£14.3	£15.2
Gross profit (£'m)	£5.5	£5.5
Gross margin %	38.4%	36.1%
Sales breakdown		
	£'m	£'m
IP PBX installs	7.7	8.8
IP PBX support (maintenance)	4.6	4.4
Data circuit rentals	2.0	2.0
IP PBX support GP	4.2	4.2
Engineering cost base	(2.4)	(2.5)

IP PBX install revenues were down £1.1m year on year from £8.8m to £7.7m in 2009. This was a good performance relative to the market. The larger installations (over £0.1m) have seen extended sales cycles with some defaults due to lack of availability of lease finance.

Sales of enhancements ("add-ons") to existing customers' systems have reduced by over 25% year on year, as many larger enterprises put on hold upgrades to their systems and are reducing system requirements rather than adding to them. We are seeing a gradual increase in our pipeline as these customers tentatively return to the market. However, the impact of this has been reduced by solid sales of smaller IP based systems (less than £0.1m) which have been ahead of expectations, with many of these vendor-financed or purchased for cash, justified by a rapid payback in terms of cheaper telecoms spend across many sites.

Many of these new sales have been assisted by multi-product offerings and cross subsidies being built into our customer base.

Maintenance revenues have increased 5% from £4.4m in 2008 to £4.6m in 2009. This was a positive performance after the loss of two of the largest Echo customers in 2008, which were serving out their final year's notice at the time of the acquisition. The outlook for maintenance revenues, which continue to be a key focus for management, remains mixed. There are plenty of opportunities to win market share with some competitors focused on other aspects of their business. However, there is continued pressure on renewal pricing and with customers continuing to close sites, churn has tracked slightly ahead of original management expectations last year, albeit still at a low level.

Data circuit revenues have remained flat year on year at £2.0m. A range of managed services were provided for new customers, including MPLS, Ethernet, and ADSL being sourced from a selection of suppliers, including principally in this period, Telstra, Viatel and Easynet. The Group also sold its first Cisco deal. Data remains an area of obvious potential growth to the business, and the Group has recently established a specialist sales team to focus on selling into our existing customers.

Margins have improved to 38.4%, up 2.3% on 2008. 1.4% of the increase is due to the change in sales mix as maintenance has much higher margins and was increased year on year. The remainder of 0.9% was due to improved buying of data circuits and improved margins on hardware kit sold to smaller customers.

In August 2009, the Group recruited a team of specialist sales and engineering skills to cover the "blue lights" market, building on the success with London and Welsh Ambulance services and also to cover the NHS trusts. To date, three new accounts have been won and this is seen as an area of growth for the Group. The Group is currently waiting for the outcome of the renewal of the necessary PASA accreditation which is due March 2010.

CAPITAL INVESTMENT

The Group invested £0.34m (2008: £0.92m) in tangible fixed assets and intangible software assets during the year. Expenditure was kept within target, and a breakdown of spend is as follows:

	2009 £'m	2008 £'m
New office space at Ivory House	—	0.1**
New City and Manchester office space	0.1	—
IT hardware	—	0.1
CRM software	0.1	0.3
Clarity™ and workflow software	0.1	0.1
IP phone system and LAN upgrade	—	0.2**
Other – motor, furniture etc.	—	0.1

The items marked ** were identified last year as non-routine expenditure.

In July 2009, the Group moved its City of London operations from serviced offices in Bunhill Row to 105 Bishopsgate where it has taken a minimum three year term lease on larger and cheaper premises.

Capital expenditure in 2010 is expected to be less than £0.5m.

FREEHOLD PROPERTY

On 31 March 2009, the Board decided that Echo's former headquarters, previously held for resale would be partially brought back into use for storage and the upper floors of offices leased. To date there has been some interest at a discounted rent on the upper floors, but requiring a change of use planning application.

Recently, an unsolicited offer to purchase the freehold was received for £725,000, and the Board has decided it would be appropriate to revalue the property at that level and accordingly an impairment charge of £0.17m has been booked to the profit and loss account. The Board is considering this offer. The cost to the Group of the property was less than £0.7m, but was revalued to £0.88m on acquisition.

CASH FLOW

Cash inflow from operations was excellent bringing in £10.6m (2008: £10.3m), representing a cash conversion of 110% adjusted EBITDA (2008: 94%). This included a working capital inflow of £1.0m (2008: outflow of £0.7m), mainly due to increased provisions of £0.6m for mobile hardware (being the costs of renewal or acquisition of customer contracts), reduced trade debtors £0.5m, and reduced stock levels £0.2m. Up to £0.4m has been identified as potentially reversing as working capital outflows next year.

The healthy cash conversion continues to highlight the Group's strong control over working capital and its prudent accounting policies. The policy of writing off customer acquisition costs immediately to the income statement, often in respect of two year contracts, has meant a further increase in the provision from £1.6m in 2008 to £2.2m in 2009. The continuing increase in these provisions, together with the share option costs of £0.6m (2008: £0.3m), are the main contributors to the high cash conversion rate of EBITDA averaging around 100% in the last two years.

The operating cash flow of the Group was applied as follows:

	2009 £'m	2008 £'m
Net operating inflow	10.6	10.3
Investment returns	0.1	0.1
Taxation	(2.5)	(1.9)
Capital expenditure	(0.3)	(0.9)
Free cash flow	7.9	7.6
Acquisitions/disposals	0.3	(0.3)
Dividends	(2.1)	(1.8)
Equity finance from staff options	0.1	—
Loan repayment	(0.1)	(0.6)
Share buy-backs	(1.3)	(4.1)
Net cash inflow	4.8	0.8
Net funds at 30 September	8.1	3.2

ECHO EARN OUT AND WARRANTY CLAIMS

On 24 January 2009, the Group finalised the deferred consideration due to the sellers of The Telecom Centre Limited ("Echo"), with a payment agreed at £58,000. On 24 March 2009, the Group received £300,000 from the same sellers in respect of warranty claims. As a result of these two transactions, the cash flow statement shows a net receipt to the Group of £0.3m in respect of purchase of subsidiary undertakings ("Acquisitions/Disposals" in table on page 14). The net balance has been allocated against goodwill arising on consolidation in the balance sheet.

TAX

The effective tax rate was 28.5% (2008: 27.0%). Note 10 on page 46 sets out the reconciliation back to the standard rate of profits being 28% in the year to 30 September 2009 (2008: 29%).

The main reason for the slightly higher than standard rate tax charge was the disallowable operating costs, the largest of which was the provision for impairment to freehold property £0.17m.

SHARE BUY-BACKS

Pursuant to the authority granted at an EGM on 24 July 2008, the Group announced on 18 August 2008 that it would commence a programme of share repurchases, limited to 4,771,162 ordinary shares. Between 16 and 20 October 2008, the Group repurchased 387,500 shares, each at 135p and subsequently cancelled them. In addition, on 11 February 2009, the Group repurchased 129,149 ordinary shares, each at 140p and they were subsequently cancelled. Between 1 and 2 July 2009, the Group repurchased a further 650,154 ordinary shares, at 100p and they were subsequently cancelled.

During the year, in aggregate the Group returned £1.35m to shareholders (2008: £4.04m) at an average repurchase share price of 116p (2008: 140p).

The 1 million shares held in treasury will continue to be held for potential use in satisfying share option exercises and equity issued as part of an acquisition.

The Board will continue to monitor levels of cash and whilst these excess levels of cash have historically been used for acquisitions, the possibility of returning excess levels of cash to shareholders via a special dividend or further share buy-backs will remain under consideration. Since the year end, the Group has further repurchased and cancelled 320,000 shares at an average price of 112p.

EARNINGS PER SHARE

Fully diluted adjusted earnings per share have decreased by 12% to 13.9p (2008: 15.8p). Basic adjusted earnings per share have decreased 13% from 16.5p to 14.4p.

The statutory or unadjusted fully diluted earnings per share have decreased 15% from 13.7p to 11.6p, and the basic statutory earnings per share have decreased 16% from 14.3p to 12.0p.

Set out below is a reconciliation to show how the basic earnings per share reconciles to the adjusted earnings per share. The two main factors are the amortisation of acquired intangible assets (principally the effect of amortising Echo's intangibles), and the impairment of the freehold property, acquired with Echo.

RECONCILIATION OF BASIC EARNINGS PER SHARE — STATUTORY TO ADJUSTED

	2009 Pence	2008 Pence
Reported basic earnings per share at 30 September	12.0	14.3
Amortisation on acquired assets/intangibles (taxed)	2.0	2.2
Impairment of freehold property	0.4	—
Adjusted basic earnings per share at 30 September	14.4	16.5

In terms of share issues and share buy-backs it has been a busy year:

SHARE ISSUES/BUY-BACKS

Number of ordinary shares at 30 September 2008	44,963,355
Share options exercised	154,069
Share buy-backs: October 2008	(387,500)
Share buy-backs: February 2009	(129,149)
Share buy-backs: July 2009	(650,154)
Number of ordinary shares at 30 September 2009	43,950,621
Shares held in treasury	1,000,000

EARNINGS PER SHARE (CONTINUED)

The earnings per share enhancing benefits of the share buy-backs in 2008 and 2009 are shrouded by a higher effective tax rate in 2009 and the increased share option costs in 2009. Adjusted earnings per share is calculated after deducting share option costs which are otherwise added back in our adjusted figures. These costs were increased from £0.3m to £0.6m in 2009.

In spite of lower rates of corporation tax (dropping from 29% composite rate in 2008 to 28% in 2009), the effective tax rate is up 1.5% to 28.5%. 1% of the increase is due to 2008 having a lower charge than normal due to prior year adjustment for Echo losses, and 2009's charge is 0.5% higher due to the disallowance of the freehold property impairment charge.

Assuming level tax rates, and adding back the share option costs, adjusted earnings per share would have been 15.3p compared to 16.6p in 2008, which is only down 8% year on year, compared to profits down 14%.

DIVIDEND PER SHARE

The Board has proposed a final dividend of 3.5p per share (2008: 3.1p per share) making a total dividend of 5.1p per share for the full year (2008: 4.6p per share). The total dividend for the full year equates to approximately 35% of adjusted earnings per share (2008: 28%), which more appropriately reflects the cash earnings of the Group. The increase in payout to the upper end of the range set by the Group's policy is due to the continued strong cash generation by the Group and when considering dividend-per-share progression, also takes into account the fewer shares ranking for dividend due to the share buy-backs both before and after the balance sheet date. The dividend will be paid on 26 January 2010 to shareholders on the register as of 18 December 2009.

BUSINESS RISK ASSESSMENT

The Group's Risk Management Framework requires a regular review of the key risks facing the Group. Aside from the economic downturn, the specific risks thought to affect the Group the most in 2010 have not changed from 2009:

CONTRACTS WITH SUPPLIERS

The Group resells the products of its suppliers and whilst many of the Group's products are supplier agnostic and there exists a freedom to substitute various suppliers' products, the Group acknowledges that it has reliance in particular on the contracts with the mobile networks, O₂ and Vodafone. These contracts are up for renewal in July 2011 and December 2010 respectively.

The Group mitigates this risk by maintaining strong relationships with its suppliers at various levels of the business, as well as paying close attention to ensuring the expectations of suppliers are met and where possible exceeded.

ACQUISITION INTEGRATION EXECUTION

The Group has set out that its strategy includes the acquisition of businesses where they are earnings enhancing. The Board acknowledges that there is a risk of operational disturbance in the course of integrating acquired businesses with existing operations. The Group mitigates this risk by careful planning, rigorous due diligence and segregation of the target operations where possible. Where there is full integration of acquired businesses, the Group receives a report on the effectiveness of the integration and variances from business plan.

TECHNOLOGICAL CHANGE

The Group operates in a market of rapid and dynamic technology changes, and there is a risk that the Group fails to secure the necessary contracts to supply its customers with a new technology (disruptive) which substitutes existing technology. The Group mitigates this risk by maintaining close relationships with its suppliers, and by employing a product marketing team whose duties include research, review and procurement of appropriate new technology products for testing prior to release to our customers.

ABILITY TO CONTINUE TO ATTRACT AND RETAIN KEY SALES AND CLIENT MANAGEMENT EXECUTIVES

The Group is a direct sales and marketing business and whilst the revenues of the Group largely recur on a monthly basis, the Group depends on being able to recruit and retain staff of the right calibre in order to win and service key contracts. The Group has sought to mitigate this risk by investing in a clear succession and training plan for career development, and improving the employee benefits and remuneration over the last three years, including commissions, and specifically share options and pension contributions. The Board monitors the results of exit interviews, recruitment statistics and staff attrition by department on a regular basis.

REGULATORY RISK

The Group acknowledges that the pricing of products and services can be affected by regulatory bodies in the UK and the EU. In recent years, pence per minute pricing from fixed to mobile destinations and EU roaming mobile voice and data retail prices have been substantially altered and this has had an impact on the results of the business. In 2009, there was a substantial change to inbound telephony product pricing as 0870 prices were regulated. This meant that the revenue stream of a "revenue share" where the operators used to pass back a percentage of the call costs to the customer, who receives the call, was effectively terminated. The Board believes that where the pricing regulations are directed at wholesale prices, the Group is better able to mitigate the risk through its own buying and pricing policies. Where the regulator imposes price caps at the retail level, the Group is more exposed to a reduction in margin where the operators do not substantially reduce their wholesale prices. The Group mitigates the risks by careful and detailed research on the future regulations, and has been involved in lobbying where applicable. The Group will assess each risk and build it into its forecasts of income as soon as possible and will amend its pricing policies accordingly.

The Board is confident that there is a satisfactory framework for monitoring, assessing and reporting on these risks. There is also a robust regular framework for reporting on predictive KPIs in the business.

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7 DECEMBER 2009