Alternative Networks plc
Preliminary results for the year ended 30 September 2009

James Murray, Chief Executive Officer
Edward Spurrier, Chief Financial Officer

Highlights

- Strong results in an unpredictable and tough market
- The business continues to show real stability
- Key Financial Highlights
  - Sales £90m – down 4%
  - EBITDA £9.6m
  - Dividend 5.1p – up 11%
  - Net Cash - £8.1m
- Prompt response to the downturn is working
- AKJ - a key strategic acquisition
- Well positioned to increase market share

Results highlights

Financial

Adjusted operating profits down 14% to £9.0m (2008: £10.4m)

Market share gains

- Mobile subscribers up 6% to 55,299
- Fixed lines estate up 29% to 67,587

Excellent cash flow

- EBITDA conversion at 110% (2008: 94%)
- Free cash flow of £7.9m (2008: £7.6m)

Cost savings

- £2.5m implemented
- Recurring operating costs in H2 were £1m lower than H1

Corporate

Proposed final dividend up 13% to 3.5p from 3.1p

- Full year dividend of 5.1p (2008: 4.6p)
- Share buy backs- £1.35m returned to shareholders in year.

Post year end

- Acquisition of AKJ – max £5.5m
- £0.32m returned to shareholders in share buy backs

Profit and loss account

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	Audited Year ended 30 September 2009 £000	Audited Year ended 30 September 2008 £000	Change %
Turnover	**89,676**	93,707	(4)
Gross profit	**30,824**	32,794	(6)
Margin	***34.4%***	*35.0%*	
Operating profit*	**8,986**	10,433	(14)
Margin	***10.0%***	*11.1%*	
Profit before taxation*	**9,070**	10,579	(14)
Earnings per share**			
Basic Adjusted	**14.4p**	16.5p	(16)
Diluted	**13.9p**	15.8p	(12)
Statutory reported Earnings per share			
Basic	***12.0p***	*14.3p*	*(13)*
Diluted	***11.6p***	*13.7p*	*(15)*

•- Underlying performance before amortisation of intangible fixed assets acquired and share option costs and impairment of freehold property

*** - Adjusted EPS is after accounting for share option costs but before amortisation of acquired intangibles, and the one off property impairment.*

Cash flow

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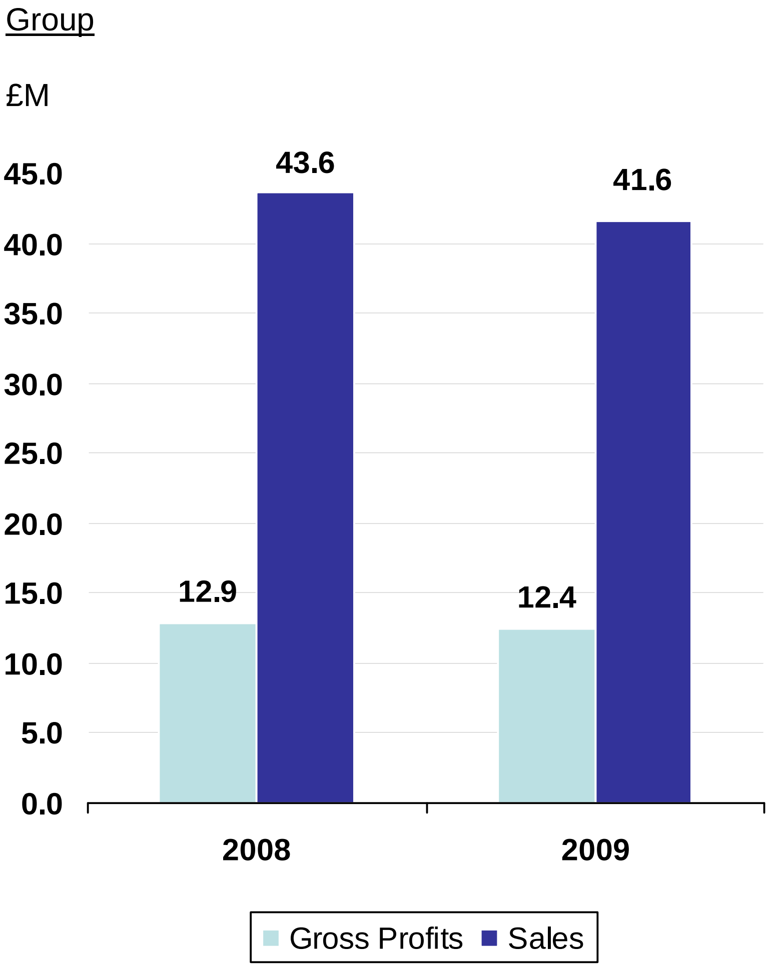
	Audited Year Ended 30 September 2009 £000	Audited Year Ended 30 September 2008 £000	Change £000
Operating cash inflow	**9,598**	11,056	(1,458)
Working capital inflow/(outflow)	**1,007**	**(721)**	1,728
Cash generated from operations	**10,605**	10,335	270
Tax paid	**(2,458)**	**(1,940)**	-518
Net cash from operating activities	**8,147**	8,395	(248)
Capex (net of disposals proceeds)	**(297)**	**(919)**	622
Interest (net)	**77**	**146**	(69)
Free Cash Flow	**7,927**	7,622	305
Dividends	**(2,088)**	**(1,811)**	(277)
Share capital - (buybacks net of options exercised)	**(1,222)**	**(4,146)**	2,924
Investment - Echo adjustments	**242**	**(276)**	518
Loan repayments	**(71)**	**(584)**	513
Increase in cash and cash equivalents	**4,788**	**805**	3,983
Cash and cash equivalents at start of year	**4,227**	**3,422**	805
Cash and cash equivalents at end of year	**9,015**	4,227	4,788
Bank loans - Mortgage on HQ	**(923)**	**(995)**	72
Net cash and cash equivalents	**8,092**	3,232	4,860

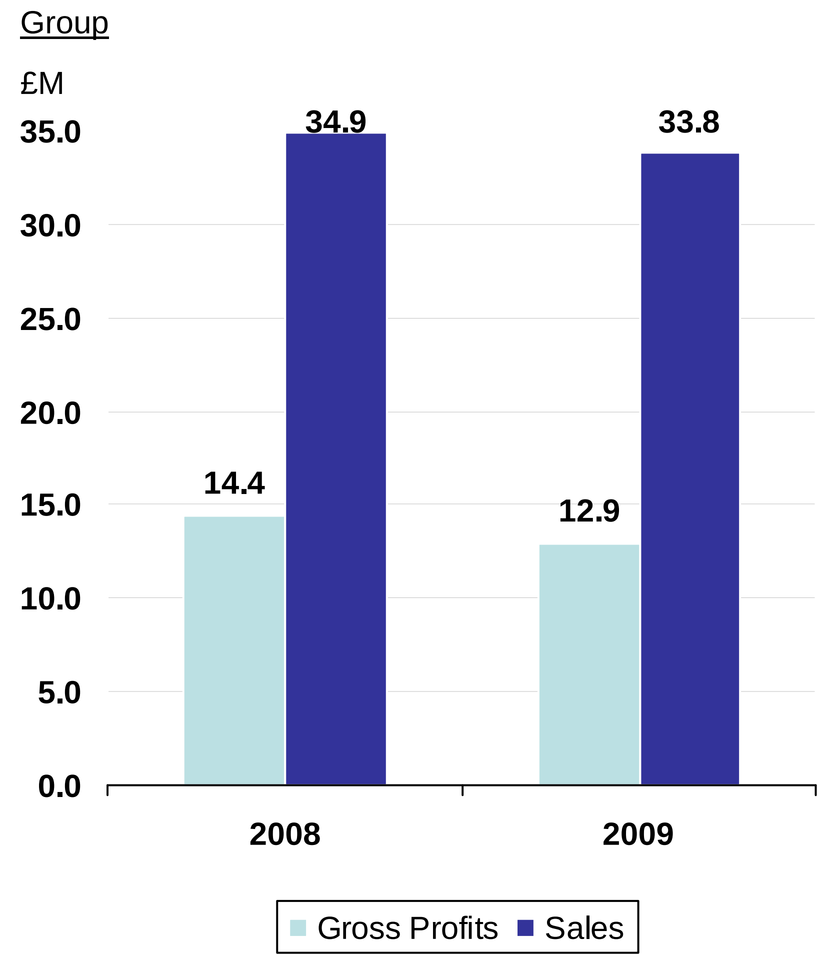
Mobile – Results

30 September	**2009 Group**	2008 Group
Subscribers at 30 September	**55,299**	51,990
ARPU (£)	**53**	60
Network subscriber churn	**19.7%**	16.4%
Customer churn by value	**15%**	15%
Average Contract Length	**22m**	22m
% Subscribers in-contract	**82%**	85%
Gross new connections in the period	**16,429**	18,465
Data connections (included in Subscribers)	**23,146**	17,362
Data connections as % of total subscribers	**41.9%**	33.4%
Gross Margins	**29.9%**	29.7%



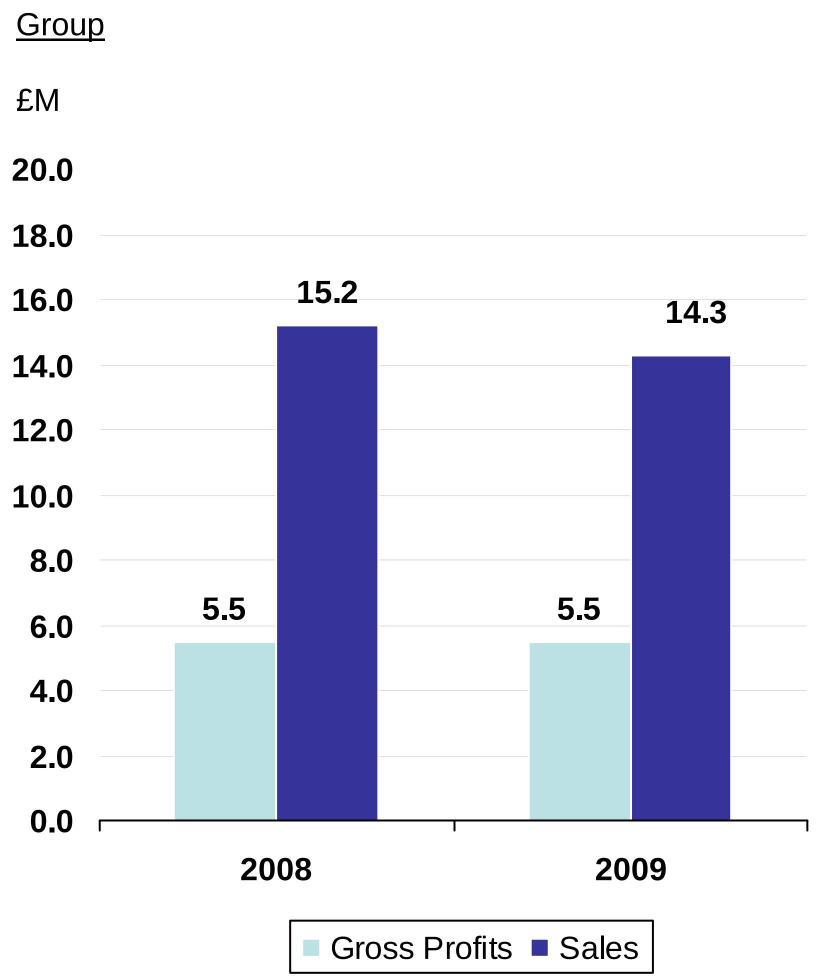
Network Services – Results

	2009 Group	2008 Group
Outbound Monthly ARPU (£)	**1,080**	1,101
Average new customer contract length (months)	**19m**	16m
WLR % total outbound revenues	**40%**	32%
Number of outbound lines/channels	**67,587**	52,262
Inbound Revenues £m	**6.9**	7.1
Inbound margins	**54%**	58%
Gross Margins	**38.2%**	41.1%



Advanced Solutions – Results

Revenues splits 2009	**2009 Group**	2008 Group
Systems – PBX	**7.7**	8.8
Maintenance revenues	**4.6**	4.4
Data services	**2.0**	2.0
Total	**14.3**	15.2
Maintenance Stats		
Maintenance GP	**4.2**	4.2
Engineering Costs	**(2.4)**	(2.5)
Gross Margins		
Gross Margins	**38.4%**	36.1%



Strategy - Overview

‘Sticking to a successful strategy that works’

- Expanding our target market
  - Medium Size Business 50 – 500+ employees
  - Targeting bigger contract wins with 250 – 1,000 employees
  - Driving cross sell opportunities : 10% increase in large customers taking 3 or more products
- Delivering converged solutions
  - Fixed / Mobile / Voice / Data
- Building best of breed supplier relationships
  - Voda/O2/BT/C&W/Mitel
- Direct route to market
  - Direct sales force, one of the largest independents.
  - Minimal dependency on others to grow and service customers

Strategy – The Market

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‘Strategically and operationally ahead of the pack’

- The Market is Consolidating and Changing and so are the Competitors
  - Several have failed – ATC /Eurotel
  - Several have been bought – Redstone base
  - Several are consolidators - Daisy

- Suppliers all understand the importance of convergence
  - Vodafone – *One Net / Vodafone One*
  - O2 – *Joined up*

- Important we continue to develop our own USP
  - Direct sales strategy
  - Bespoke offering
  - Industry leading customer service team
  - Development of Clarity into Customer Portal

Strategy - Acquisitions

‘Consistent strategy in place’

- Alternative's strategy
  - Narrow financial criteria – earnings enhancing, growing, profitable
  - Strict adherence to Right Fit - customers, culture and cross-sell
  - In house team fully engaged
- Alternative’s experience
  - Efficient complete integration – ICB and Echo
  - 2009 : one small but strategically critical acquisition – AKJ
- Alternative’s targets
  - “Data” business – of scale e.g. £20m to £30m sales, £2m+ EBITDA
  - Can afford to be opportunistic

Strategy - AKJ Acquisition

‘A key strategic acquisition’

Aurora Kendrick James
- Billing software and services provider
- £3.6m revenues, £0.6m EBITDA
- 49 employees in Chatham, Kent

Deal Summary
- £3.75m cash, £1.25m held in Escrow
- £0.8m shares, lock-in for 2 years for management
- £0.95m max deferred, early estimates of £0.4m

Strategy
- Secure control of IP on market leading products
- Build Service Portal, and bespoke managed service for larger AN clients
- Established channel of over 50 resellers

Potential
- EBITDA expansion to £1m over 2 years
- AN to win and retain bigger customers
- AKJ to develop channel for Voice and IP services

Strategy – Contract Wins

‘Targeting and winning bigger contracts’

- 3 year Vodafone contract win
  - Value - £1m per year commission
  - Management and billing 5,000 mobiles
  - Extensive cross sell possibilities
  - Good potential for further similar opportunities
- Establishment of ‘Blue Light’ team
  - Targeting significant Public sector opportunity
  - Based on ECHO acquisition and ATC team
  - Reinforcement of existing public sector accounts
  - 3 significant new wins achieved
  - Trojan horse effect of support contracts
- Growth opportunities generated through acquisition strategy

Conclusion & Outlook

- Very solid results – despite tough times
- Very strong financial position – with strong cash generation
- Achieved a key strategic acquisition – AKJ
- Strategically and operationally ahead of the pack
- Exciting position to take increased market share
- Content with market expectations

Appendices

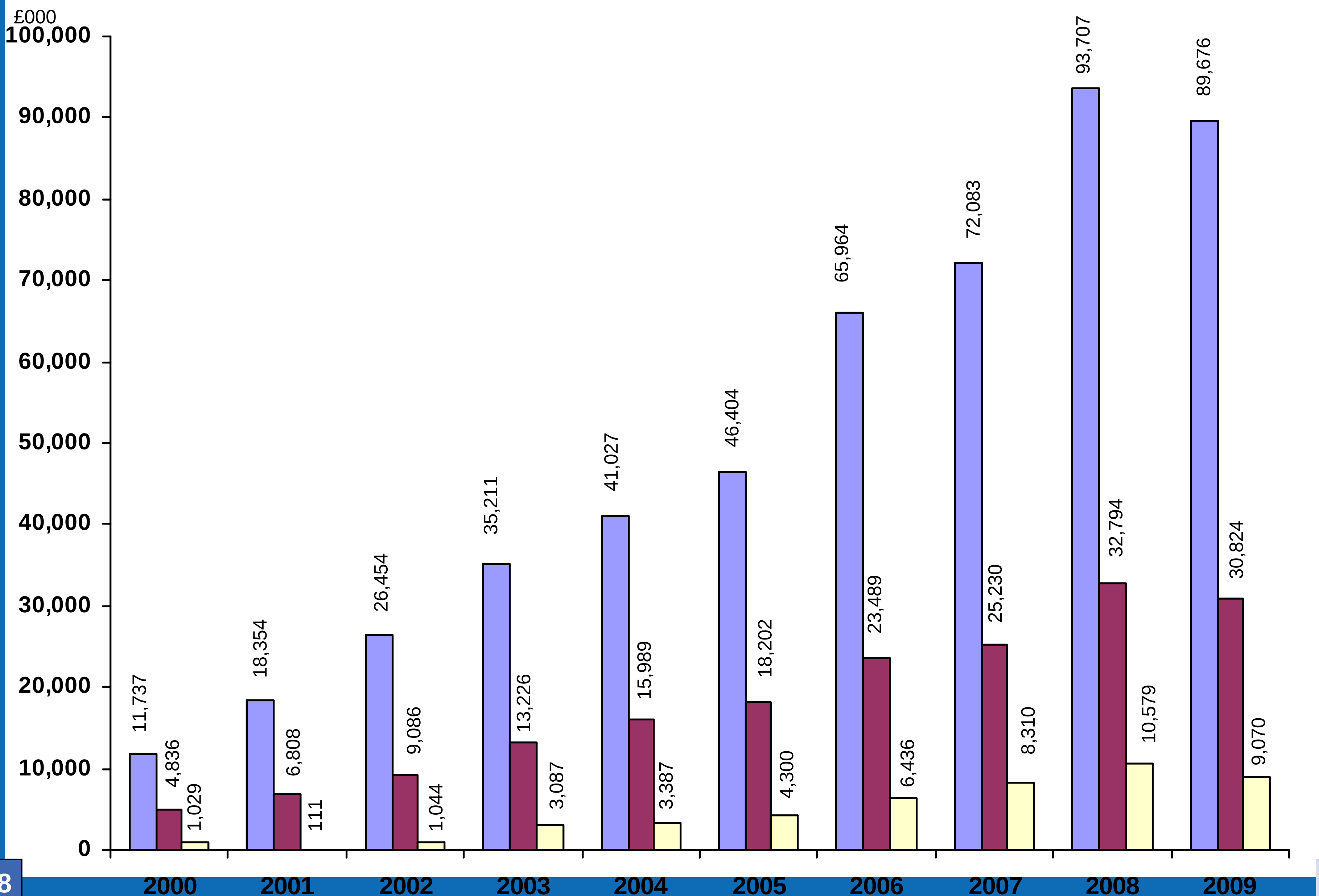
Balance Sheet

	Audited Year ended 30 September 2009 £000	Audited Year ended 30 September 2008 £000
ASSETS:		
Non-current assets		
Intangible assets	**17,755**	19,417
Tangible assets	**2,708**	2,204
Deferred tax and other	**442**	688
Property for resale	**0**	887
	20,905	23,196
Current assets		
Receivables and inventories	**12,703**	14,832
Cash and cash equivalents	**9,015**	4,227
	21,718	19,059
Total assets	**42,623**	42,255
EQUITY AND LIABILITIES:		
Equity		
Called up share capital	**56**	57
Share premium	**4,855**	4,721
Merger reserve	**1,905**	1,905
Capital redemption reserve	**4**	3
Treasury shares held	**(1,422)**	(1,422)
Retained earnings	**16,607**	14,791
	22,005	20,055
Current liabilities	**18,654**	19,903
Non-current liabilities	**1,964**	2,297
Total liabilities	**20,618**	22,200
Total equity and liabilities	**42,623**	42,255

Profit and Loss Account

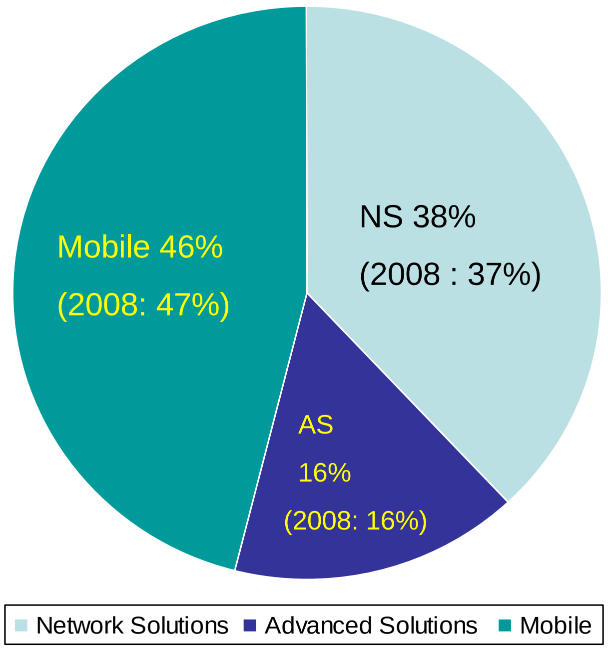
	Audited Year ended 30 September 2009 £000	Audited Year ended 30 September 2008 £000
Turnover	**89,676**	**93,707**
Cost of sales	**(58,852)**	**(60,913)**
Gross profit	**30,824**	**32,794**
Operating costs	**(23,793)**	**(24,039)**
Operating profit	**7,031**	**8,755**
Total operating profit - analysed:		
Adjusted operating profit	**8,986**	**10,433**
Impairment of freehold property	**(170)**	**-**
Share based payments	**(565)**	**(303)**
Amortisation of intangible fixed assets (excluding computer software)	**(1,220)**	**(1,374)**
Total operating profit	**7,031**	**8,755**
Finance income	**105**	**223**
Finance costs	**(21)**	**(77)**
Profit on ordinary activities before taxation	**7,115**	**8,901**
Taxation on profit on ordinary activities	**(2,024)**	**(2,402)**
Profit on ordinary activities after taxation	**5,091**	**6,499**
Attributable to:-		
Equity shareholders of the company	**5,091**	**6,497**
Minority interest	**-**	**2**
	5,091	**6,499**
Earnings per ordinary share:		
Basic	**12.0p**	**14.3p**
Diluted	**11.6p**	**13.7p**

Ten Year Track Record

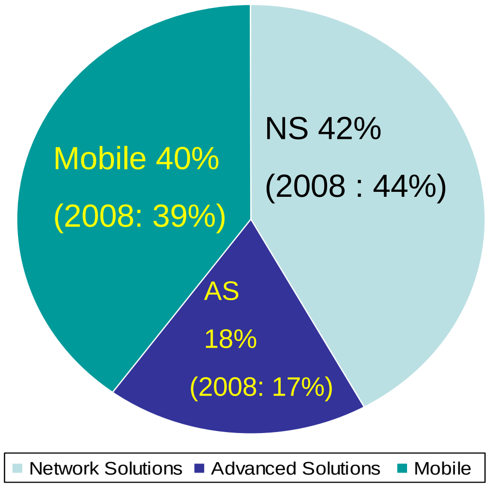


Products overview

Sales



Gross Profits



Mobile

- Provider of mobile services, including mobile email, applications and access to office resources
- Choice of leading suppliers – Vodafone (Premier Partner) and O2 (Premier Partner)
- Specialist in Blackberry and Windows Mobile
- Range of mobile broadband and wireless solutions
- Clarity online customer billing tool offers bespoke reporting and asset management

Network Services

- Fixed line, voice and line rental provided through tier one brands, including – BT, Openreach, Cable & Wireless, Opal and Verizon
- Inbound 08xx, 09xx, call centre solutions
- Bespoke tariffs
- Bespoke reporting and cost management through “Clarity”.

Advanced Solutions

- Phone systems and data networking solutions, including support services.
- Voice over IP specialists in Unified Comms (UC) and Fixed Mobile Convergence (FMC)
- Suppliers include Mitel (Platinum partner), Avaya (Platinum Partner), Cisco and HP
- Expanding data portfolio solutions such as MPLS, IP-VPN, Ethernet based services as well as broadband

Case study

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SMITHSGORE

ESTATE MANAGEMENT, 26 SITES NATIONWIDE

March 2008	April 2008 to April 2009	May 2009	June to December 2009	June 2009	On-going....
Smiths Gore acquires Cluttons Rural Division (existing Alternative Networks client) Blackberry introduced	Blackberry and mobile fleet grows by 100 connections	Full mobile and Blackberry fleet ports to Alternative Networks (a further 100 connections)	Fixed line rental moves from BT retail to Alternative Networks. All outbound voice now with Alternative Networks	New Mitel phone system installed in one Yorkshire branch. Annual support contract won	Opportunities - maintenance, data services
£1,400 (monthly revenue)	**£2,500** (monthly revenue)	**£5,500** (monthly revenue)	**£10,000** (monthly revenue)	**£12,500** (one off cost)	

VALUE - £10,000/ month (small corporate size)