# Annual Report & Accounts 2017

Maintel Holdings Plc

maintel

**At Maintel, we help businesses become more competitive in the digital economy with effortless communications solutions.**

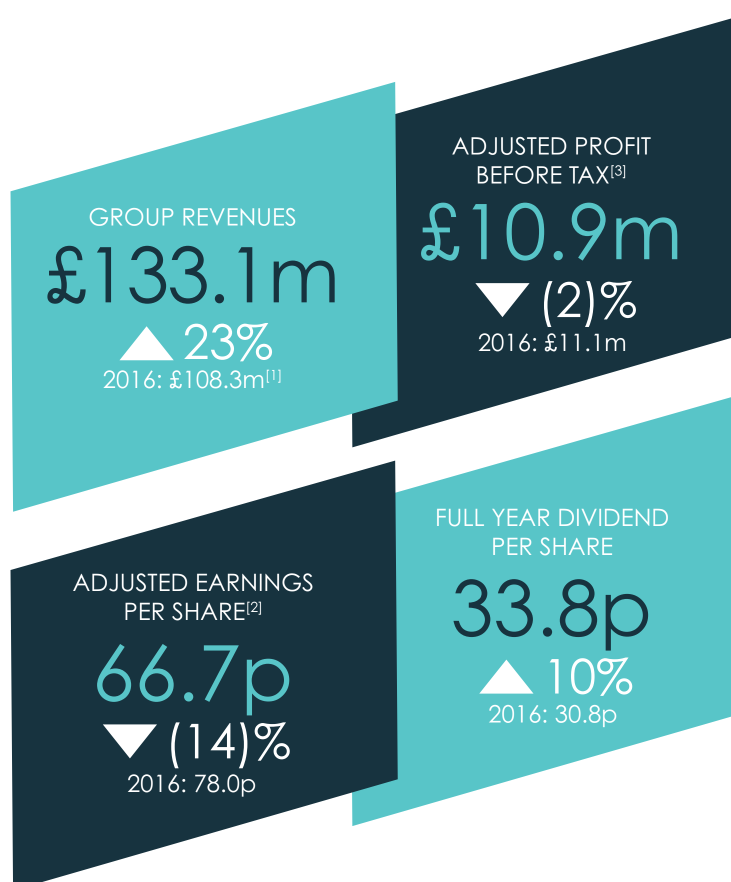
We work with organisations to make teams more effective and efficient with digital workplace technology, improve customer relationships with customer experience technology and connect employees and customers to applications and data through secured connectivity.

*"The acquisition of Intrinsic enhances Maintel's already strong capability in data networking and the fast-growing network security sector, and we are already seeing encouraging cross-sell into our existing customer base."*

**Eddie Buxton**
Maintel CEO

**Our cloud and managed services help organisations achieve real business transformation, delivering compelling customer experiences online, in the contact centre and in-store to drive customer acquisition and retention.**

# Highlights




Notes

[1] 2016 includes 8 months of Azzurri, which was acquired on 4 May 2016.

[2] Adjusted earnings per share is basic earnings per share of 21.7p (2016: 16.0p), adjusted for intangibles amortisation, exceptional costs and deferred tax charges related to loss reliefs from previous acquisitions of Datapoint and Azzurri (note 11). The weighted average number of shares in the period increased to 14.2m (2016: 13.1m) arising from the equity raise in May 2016 to support the Azzurri acquisition.

[3] Adjusted profit before tax of £10.9m (2016: £11.1m) is basic profit before tax, adjusted for intangibles amortisation and exceptional costs.

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# Chairman's statement

***"The Group has made pleasing progress in the period on its transition to a cloud and managed services provider in the mid-market and enterprise space and, as a result, has entered 2018 well placed to capitalise on future growth opportunities."***

**J D S Booth**
Chairman

The Group delivered revenue growth of 23% in 2017, with revenues increasing to £133.1m, underpinned by a full twelve months' contribution from Azzurri and five months' contribution from Intrinsic, the business we acquired in August 2017. Excluding Intrinsic, but including the full twelve months contribution from Azzurri, the Group's core business grew by 15% year on year in a highly competitive market.

Adjusted profit before tax decreased by 2% to £10.9m (2016: £11.1m) and adjusted EPS decreased by 14% to 66.7p (2016: 78.0p) reflecting the increase in shares outstanding following the Azzurri acquisition.

Recurring contracted revenue made up 71% of 2017 revenues (2016: 73%) including the contribution from Intrinsic which has a lower level of recurring revenues than the Group overall.

The Group has made pleasing progress in the period on its transition to a cloud and managed services provider in the mid-market and enterprise space and, as a result, has entered 2018 well placed to capitalise on future growth opportunities. In the period, the Group continued to invest in key growth areas, such as our cloud proposition, and focused on diversification of the product offering, through the acquisition of Intrinsic, which brings key strategic benefits.

Managed service and technology revenues increased by 24% year on year to £79.4m, with managed services revenue up 20% and technology revenue up 29%, both benefiting from the contribution from Intrinsic. The underlying Maintel business, excluding Intrinsic, grew by 11% to £71.1m (2016: £64.1m) reflecting a full year's contribution from Azzurri.

Group gross profit increased by £1.7m compared with 2016. Excluding Intrinsic, gross profit remained flat year on year, with gross margins declining by 3% to 30%. This reduction was driven by three main factors: the impact of three large low gross margin contracts won in 2016 but recognised to revenue in 2017, the increased mix of lower gross margin public sector business in the year and the reduction in very high margin legacy maintenance business, particularly

## Revenue Growth

with revenues increasing to £133.1m (2016: £108.3m)

## Increased Dividend

an increase of 10% year on year

## High Growth in Cloud Services

ICON contracted seats increase c.80% year on year

one previously highlighted customer that left in early 2017.

Network services revenue increased by 25% year on year (23% excluding Intrinsic) driven by the full year contribution from Azzurri. Revenue from legacy fixed line calls fell by 8% reflecting the overall market decline and Maintel's sales focus on growing cloud and managed services. Data revenues increased by 38% year on year driven by the high growth of our ICON cloud suite of services, demand for which continues to grow, in particular ICON Communicate, our unified communication service, which delivered growth of c.80% in contracted seats over the previous year.

Mobile revenue was flat at £6.9m delivering gross profit of £3.3m with margins broadly unchanged.

The board proposes to pay a final dividend of 19.1p per share, resulting in a total ordinary dividend for the year of 33.8p per share (2016: 30.8p per share), an increase of 10% year on year.

We remain committed to maximising shareholders' returns whilst reducing net debt and maintaining a strong balance sheet. Moving forward it is our intention to return to a dividend payout ratio of at least 40% of adjusted net income. Based on our confident outlook for the business, we expect that the total dividend paid annually will remain progressive in absolute terms.

As a result of the major acquisitions completed in the last two years, the Group has undergone significant transformation and now employs more than 600 highly qualified professionals. The successful integration of these acquisitions, in sometimes challenging market conditions, was made possible by the hard work and focus of our excellent team. I want to thank them on behalf of shareholders and the Board for last year's achievements, which leave us well positioned for the year ahead.

**J D S Booth**
**Chairman**

16 March 2018

# Maintel overview

Maintel is a cloud and managed services company with a focus on communications. Maintel helps its customers to improve their businesses through digital transformation by:

1. Enabling their organisations to be more effective and efficient through the use of **digital workplace** technology;
2. Improving their relationships with customers by deploying **customer experience** technology; and
3. Connecting their employees and customers to their applications and their data through **secured connectivity**.

This is delivered by providing a range of cloud and on-premise technology offers, complemented by consultancy, professional and managed services.

Maintel helps businesses to be competitive in the digital economy. Maintel's **digital workplace** offering includes unified communications ("UC"), meeting technology, collaboration services, mobile devices and services, document management and digital print management.

Maintel helps businesses deliver compelling customer experiences online, in the contact centre and in-store; helping them to improve customer acquisition and retention. Maintel's **customer experience** is centred around omnichannel contact centre technology, self-service channels and analytics.

Maintel **securely connects** businesses to their employees, customers, applications and data, whether they are in an office location, on the road, at home or in the cloud. Maintel's connectivity portfolio covers wide and local area networking, public and private cloud access and security products and services.

## ICON

ICON is Maintel's strategic delivery platform for cloud services, and the business is increasingly transitioning its customer base from on-premises telephony platforms to cloud delivered via the ICON platform. A key differentiator for the Group, Maintel's ICON offer comprises a broad range of cloud connected and managed services, the key services being:

- **ICON Connect** – Next generation, cloud-optimised managed wide-area network service
- **ICON Secure** – Network security as-a-service
- **ICON Communicate** – Unified communications as a service
- **ICON Contact** – Contact centre as-a-service
- **ICON Mobilise** – Mobile device and application management as-a-service.

ICON represents a significant revenue stream for Maintel and is increasing as a part of the overall product mix. Currently over 50% of our near-term major project pipeline is for ICON services. Revenue generated from the ICON platform is of high quality, 100% recurring and provides the Group with a long-term client base.

### Partner strategy

Maintel partners with leading vendors across its portfolio, always aiming to be in the highest category of partner accreditation for strategic parts of the portfolio.

The Group continues to review its partner strategy as technology changes and markets evolve, but always seeks to partner with more than one vendor in any given technology to ensure independence and appropriate choice for customers.

Key partners across the main product areas are:

## Digital workplace

## Customer experience

## Secured connectivity

# Maintel overview continued

## Go-to-market strategy

### Direct business

Maintel's direct sales team is focussed on UK public and private sector organisations, typically with between 250 and 10,000 employees. The strategy is threefold for this team:

1. **Commercial and enterprise customer development** – Maintel has an enviable customer base in the UK mid-market and enterprise space, and there is considerable opportunity to develop this base, increase product penetration, and migrate existing customers to next generation technology such as cloud delivery. There are teams focussed solely on existing customers, and there is considerable opportunity for growth in this segment.
2. **Commercial and enterprise new customer acquisition** – Maintel has a new business sales team focussed on "new logo" customer acquisition. The customer development team then oversees project delivery and completion.
3. **Public sector** – Maintel has a strong presence in the UK public sector, with a particular focus on primary healthcare trusts, local authorities, tertiary education, government agencies and social housing. There are two teams entirely focussed on this market – one responsible for new customer acquisition, and one focussed on customer development. Customer acquisition is via both a variety of public sector procurement frameworks and traditional proposal/contract.

### Indirect business

Relationships with channel partners, predominantly national and global systems integrators and telecommunications services providers, allow the provision of Maintel's full set of products and services more widely, both in the UK and internationally. Typically, this business focusses on the enterprise market of 5,000 employee organisations and above, although there is some wider historic managed service business predominantly providing on-site and remote support services on legacy unified communications (UC), contact centre and networking equipment. Maintel Partner Services has a dedicated channel management team, reporting to an independent sales director to avoid channel conflict.

## Business development strategy

### Organic growth

Following a period of consolidation and integration throughout 2016 and 2017 after the acquisitions of Azzurri Communications and Intrinsic Technology, the focus is now on an increase in organic growth, both through new customer acquisition and through increasing product penetration in the existing customer base.

The significant growth in ICON delivered during 2017 will continue through 2018 and beyond as organisations embrace cloud. As a result, the ICON platform grows in importance, and Maintel continues to invest in the platform to support that growth. The Group has appointed a cloud services director to deliver that investment and to direct the Group's evolution towards an increasingly cloud-delivered set of products and services. 2018 will see the biggest investment in the platform to date with increased capex aimed not just at capacity increases, but also at performance optimisation, increasing automation and enhancing the product offers.

### M&A

Having made two major acquisitions in recent years, which together more than trebled the size of the business, Maintel now operates at a significant scale. The Group will continue to consider selective acquisitions, where appropriate, to drive shareholder value and to continue to develop the business to maintain its competitive positioning; however, the primary focus of any near-term acquisitions will be on enhancing capability and diversifying product offering.

### Product & service strategy

Maintel continues to aim to be a market leader, both in new product and service offerings and in its existing portfolio.

### Digital workplace

Maintel anticipates a continuation of the significant growth seen to date in the number of contracted seats on its ICON Communicate platform. The platform now offers managed communications services from Avaya (both Aura and IP Office), Mitel and Microsoft and all four platforms are expected to show substantial growth during 2018 and beyond. The addition of Avaya Aura to the ICON Communicate portfolio is expected to

be particularly significant in terms of seat count growth, with many existing and new customers looking to migrate their current environments into the cloud.

In addition to traditional UC and collaboration tools, Maintel expects to deliver an increasing number of meeting tools, collaboration devices and broader team collaboration software.

Mobility remains a key component of Maintel's portfolio, with an increased focus on managed mobility services and the support of collaboration services on mobile devices.

## Customer experience

Omnichannel customer experience technology is a key focus for many Maintel customers, whether deployed as public cloud, private cloud or on-premise technology. Maintel has a strong practice in workforce optimisation and the use of analytics to improve customer journeys and to provide insight into company and product performance.

Maintel will invest significantly in its own multichannel contact centre platform, Callmedia, while continuing to partner with global leaders in the customer experience sector, such as Avaya, Genesys, Verint and NICE. Maintel has also made significant investment in its professional services capability around customer interaction automation, an area identified for continued development, and in integration skills around the new Avaya portfolio.

Although contact centre technology has trailed UC in cloud adoption, the customer experience pipeline is increasingly for cloud-based delivery.

## Secured connectivity

With the acquisition of Intrinsic Technology in August 2017, Maintel has significantly bolstered its capability in local area networking, both wired and wireless. Combined with Maintel's existing capability in that space, and with the significant capability and customer base for wide area networks based on Maintel's ICON Connect service, Maintel now has a managed connectivity offer across all areas of connectivity and network security.

Developments in 2017 included the addition of on-net public-cloud connectivity to providers such as Microsoft Azure and AWS, and in early 2018, Maintel will launch a Software Defined WAN (SD-WAN) capability within ICON Connect.

ICON Secure, Maintel's security as-a-service offer, has also been improved with additional capabilities and products from the Intrinsic acquisition, and security is increasingly a core competence.

Maintel will continue to develop the connectivity offerings to keep pace with the increased demands of cloud access, high bandwidth services and to support the growth of Internet of Things (IoT) projects.

## People strategy

As a cloud and managed services company, the acquisition, development and retention of talent is imperative. During 2017, Maintel appointed a Chief people officer to define and deliver its people strategy in line with the Group culture and values, which were developed and re-launched during the year. These reflect how the people, the teams and the corporate entity behave, and the culture the Group wants to develop and nurture.

We play it straight

Honesty, transparency and integrity in our dealings with each other, our partners and our customers.

We enjoy what we do and work as at team

Enjoying being at work, being serious without taking ourselves too seriously. Valuing each and every individual, while putting what's right for the team first.

We are pioneering

Being courageous and resourceful, developing our business by improving those of our customers, anticipating change and challenging the status quo.

We are empowered, and accept accountability

Doing what's right and taking responsibility. Being accountable for our targets, actions and commitments.

We are agile and flexible

Flexible and agile people, processes and services – able to adapt quickly.

We constantly learn and grow

Always learning – never standing still.

# Business review

## Results for the year

During the year, Maintel has continued its transition from a traditional telecoms service provider towards a cloud and managed services provider. The acquisition of Intrinsic on August 1 2017 further strengthens the Group's product portfolio in data networking and network security through the addition of Cisco expertise. Maintel is now one of the UK's leading Cisco Gold Partners.

Reported numbers for the year include a full 12 months' contribution from Azzurri, compared to eight months' contribution in the prior year, and five months contribution from Intrinsic, acquired in August 2017.

Group revenues increased by 23% to £133.1m (2016: £108.3m) with adjusted EBITDA of £12.5m down 1% (2016: £12.6m). Adjusted profit before tax decreased by 2% to £10.9m (2016: £11.1m). Adjusted earnings per share (EPS) decreased by 14% to 66.7p (2016: 78.0p), in part due to the increased number of shares in issue following the issue of new shares in 2016 as part of the Azzurri transaction.

The proportion of Maintel revenue being generated from recurring products and services (being all revenue excluding one-off projects) remained high at 71% of total revenue, with a marginal reduction on the prior year (2016: 73%) as a result of the contribution from Intrinsic, which has a higher proportion of project based, non-recurring revenue.

On an unadjusted basis, profit before tax increased by 67% to £3.5 m (2016: £2.1m) and basic EPS by 36% to 21.7p (2016: 16.0p). This includes £1.5m of exceptional costs associated with the Intrinsic acquisition and related restructuring activities (2016: £4.2m relating to the Azzurri acquisition), and intangibles amortisation of £5.9m (2016: £4.7m), the increase in the latter due mainly to the acquired Intrinsic intangible assets and a 12 month charge relating to the Azzurri acquired intangible assets.

| | 2017 £000 | 2016 £000 | Increase/ (decrease) |
|---|---|---|---|
| Revenue | 133,079 | 108,296 | 23% |
| Profit before tax | 3,516 | 2,107 | 67% |
| Add back intangibles amortisation | 5,892 | 4,733 | – |
| Exceptional items mainly relating to the acquisition of Intrinsic (2016: Azzurri) and associated restructuring activities | 1,454 | 4,240 | – |
| Adjusted profit before tax | 10,862 | 11,080 | (2)% |
| | | | |
| Adjusted EBITDA[(a)] | 12,524 | 12,598 | (1)% |
| Of which[(b)]: Maintel | 12,246 | 12,598 | (3)% |
| Intrinsic | 278 | – | – |
| Basic earnings per share | 21.7p | 16.0p | 36% |
| Diluted | 21.3p | 15.8p | 35% |
| Adjusted earnings per share[(c)] | 66.7p | 78.0p | (14)% |
| Diluted | 65.5p | 76.8p | (15)% |

(a) Adjusted profit before tax after adding back net finance expense and depreciation

(b) After management charges

(c) Adjusted profit after tax divided by weighted average number of shares (note 11)

## Cash performance

The Group generated net cash flows from operating activities of £4.4m (2016: £10.6m).

As detailed in the interim results, cash flow in the first half was negatively impacted by the unwind from strong trading in H2 last year, and also by the success of our ICON service offering, which resulted in both reduced upfront project billing and a need for capital investment in additional capacity.

As anticipated cash flow improved materially in the second half, with cash conversion[(d)] in the second half of 96%. The net outflow in working capital because of the unwind in H1 detailed above, resulted in cash conversion[(d)] at 35% for the full year (2016: 84%).

## Acquisition of Intrinsic

Maintel acquired Intrinsic Technology Ltd ("Intrinsic") on 1 August 2017 on a cash-free, debt-free basis for a consideration of £5.25m, reduced to £4.90m through price adjustment mechanisms, payable in cash. The acquisition was funded by an extension to, and draw-down under, the Company's existing Revolving Credit Facility with the Royal Bank of Scotland Plc (the "RCF"). The RCF, originally secured in April 2016, has been increased by £6 million to £42 million.

The acquisition of Intrinsic makes compelling strategic and financial logic. As one of the UK's leading Cisco Gold Partners it significantly enhances Maintel's already strong capability in LAN networking and the fast growing network security sector. In addition, as a top-level Avaya Diamond Partner Intrinsic will further strengthen Maintel's managed service base.

Intrinsic's customers are predominantly medium to large enterprises and it has a strong presence in public sector organisations, particularly in the NHS, local authorities, education and blue light services that enhances Maintel's growth in the public sector.

The acquisition brings significant mutual cross-sell opportunities, both in terms of offering Maintel's existing portfolio to Intrinsic's customers, in particular our ICON suite of cloud and managed services and in terms of Intrinsic's Cisco services to Maintel's customer base. We are pleased with the performance of the business in the period since acquisition, with good cross-sell opportunities already being realised. Cisco cross-sell business since acquisition is c. £2.0m, including a £0.5m technology project with a local authority customer and a £0.4m managed service contract with a large property services customer.

Annualised synergies of £2.0m were identified at the time of the acquisition, which have been realised in full within the period and we expect Intrinsic to contribute positive EBITDA and be earnings enhancing in the financial year to 31 December 2018.

(d) Being net cash flows from operating activities as a % of adjusted EBITDA

# Business review continued

## Review of operations

The following table shows the performance of the three operating segments of the Group. The 2017 results include a full 12 months' contribution from Azzurri compared to eight months' contribution in 2016. On 1 January 2017, as part of the corporate restructuring of the Group, the Azzurri trading entity was hived up into Maintel Europe Ltd so that for 2017 the UK operations were managed and controlled as one entity.

Excluding Intrinsic, Maintel generated £124.1m of revenue, an increase of 15% over the previous year.

| Revenue analysis | 2017 £000 | 2016 £000 | Increase/ (decrease) |
|---|---|---|---|
| **Maintel (excluding Intrinsic)** | | | |
| Managed services related | 37,129 | 34,630 | 7% |
| Technology[e] | 33,950 | 29,479 | 15% |
| **Managed services and technology division** | 71,079 | 64,109 | 11% |
| **Network services division** | 46,111 | 37,395 | 23% |
| **Mobile division** | 6,898 | 6,947 | (1)% |
| Intercompany | – | (155) | (100)% |
| **Total Maintel (excluding Intrinsic)** | 124,088 | 108,296 | 15% |
| **Intrinsic[f]** | | | |
| Managed services related | 4,311 | – | – |
| Technology[e] | 3,996 | – | – |
| **Managed services and technology division** | 8,307 | – | – |
| **Network services division** | 684 | – | – |
| **Mobile division** | – | – | – |
| **Total Intrinsic** | 8,991 | – | – |
| **Total Maintel Group** | | | |
| Managed services related | 41,440 | 34,630 | 20% |
| Technology[e] | 37,946 | 29,479 | 29% |
| **Managed services and technology division** | 79,386 | 64,109 | 24% |
| **Network services division** | 46,795 | 37,395 | 25% |
| **Mobile division** | 6,898 | 6,947 | (1)% |
| Intercompany | – | (155) | (100)% |
| **Total Maintel Group** | 133,079 | 108,296 | 23% |

(e) Technology includes revenues from hardware, software, professional services and other sales.

(f) Intrinsic was acquired on 1 August 2017, and therefore 5 months' of its financial performance has been recognised post-acquisition.

Gross margin for the Group reduced to 29% from 32% in 2016, driven by the reduction in gross margin in the managed services and technology division, as detailed below, and five months' contribution from the lower gross margin Intrinsic operations. Excluding Intrinsic, gross margin was 30%.

The level of recurring revenue decreased to 71% (2016: 73%), as a result of the inclusion of Intrinsic. Intrinsic's standalone business was 56% recurring in the period since acquisition.

Detailed divisional performance is described further below.

## Managed services and technology division

| | 2017 £000 | 2016 £000 | Increase |
|---|---|---|---|
| **Maintel (excluding Intrinsic)** | | | |
| Divisional revenue | 71,079 | 64,109 | 11% |
| Division gross profit | 21,353 | 21,408 | – |
| Gross margin (%) | 30% | 33% | – |
| **Intrinsic** | | | |
| Divisional revenue | 8,307 | – | – |
| Division gross profit | 1,759 | – | – |
| Gross margin (%) | 21% | – | – |
| **Total Maintel Group** | | | |
| Divisional revenue | 79,386 | 64,109 | 24% |
| Division gross profit | 23,112 | 21,408 | 8% |
| Gross margin (%) | 29% | 33% | – |

The managed services and technology division provides the management, maintenance, service and support of unified communications, contact centres and local area networking technology both on customer premises and in the cloud, across the UK and internationally, on a contracted basis. It also supplies and installs project-based technology, professional and consultancy services, to our direct clients and through our partner relationships.

Revenue in this division increased by 24% to £79m with Intrinsic contributing £8m. Excluding Intrinsic, growth was 11%, with managed services related revenue up 7% year on year and technology up 15%, both revenue streams boosted by a full 12 months' contribution from Azzurri.

Group gross profit increased by £1.7m compared with 2016. Excluding Intrinsic, gross profit remained flat year on year, but with gross margins declining by 3% to 30% compared to 33% in 2016. The gross margin decline was driven by three main factors: the impact of three large low gross margin contracts won in 2016 but recognised to revenue in 2017; the increased mix of lower gross margin public sector business in the year; and the reduction in very high margin legacy maintenance business, particularly one previously highlighted customer that left in early 2017.

Technology sales in the period were adversely affected by the previously highlighted delays in customer projects. Technology revenues in the second half were 15% lower than the same period in the prior year, which was a particularly strong comparator period due to several large contracts falling into the second half of 2016. This masked a strong performance from our new public sector team, with Maintel winning 24 new contracts on the public sector network services framework in 2017, particularly in the NHS sector.

An increasing number of public sector organisations are contracting services on our cloud platform. The acquisition of Intrinsic, which has a particularly strong footprint in the public sector, further strengthens our position in this area.

As previously explained, we are seeing some negative impact on the level of in year technology sales as our customers look to move large scale projects off-premises and into the cloud.

In the year, Maintel continued to see a reduction in the legacy break/fix maintenance base, as the Group's focus continues to shift towards winning larger, multi-year managed service contracts with newer technology and a wider suite of supporting products including software support, network monitoring and productivity services. This newer technology and the move to cloud services reduces the need for a large field based engineering team and Maintel's business model and

# Business review continued

organisation structure will continue to evolve to address this change in technology.

At 31 December 2017, the managed service base including Intrinsic stood at £41.5m up c.15% on 2016.

The near term sales pipeline is strong and we are particularly pleased to note that Avaya, our core vendor, has become a listed business with a strong product strategy focusing on cloud services. Q1 2018 has seen a significant increase in our Avaya project pipeline and Maintel looks forward to working closely with Avaya on these opportunities.

## Network services division

The network services division sells a portfolio of connectivity and communications services, including managed MPLS networks, security as a service, internet access services, SIP telephony services, inbound and outbound telephone calls and hosted IP telephony solutions. These services complement the on-premise and cloud solutions offered by the managed service and technology division and the mobile division's services.

| | 2017 £000 | 2016 £000 | Increase/ (decrease) |
|---|---|---|---|
| **Maintel (excluding Intrinsic)** | | | |
| Call traffic | 6,173 | 6,690 | (8)% |
| Line rental | 11,495 | 10,093 | 14% |
| Data connectivity services | 28,042 | 20,282 | 38% |
| Other | 401 | 330 | 22% |
| Total division | 46,111 | 37,395 | 23% |
| Division gross profit | 12,286 | 10,257 | 20% |
| Gross margin (%) | 27% | 27% | – |
| **Intrinsic** | | | |
| Call traffic | – | – | – |
| Line rental | – | – | – |
| Data connectivity services | 684 | – | – |
| Other | – | – | – |
| Total division | 684 | – | – |
| Division gross profit | 110 | – | – |
| Gross margin (%) | 16% | – | – |
| **Total Maintel Group** | | | |
| Call traffic | 6,173 | 6,690 | (8)% |
| Line rental | 11,495 | 10,093 | 14% |
| Data connectivity services | 28,726 | 20,282 | 42% |
| Other | 401 | 330 | 22% |
| Total division | 46,795 | 37,395 | 25% |
| Division gross profit | 12,396 | 10,257 | 21% |
| Gross margin (%) | 26% | 27% | – |

Network services revenues increased by 25% year on year. Excluding Intrinsic, growth was 23%. Divisional gross margin decreased by 1% to 26%, but excluding Intrinsic was unchanged at 27% (2016: 27%).

Traditional call traffic revenues decreased 8% to £6.2m (2016: £6.7m), which is a reflection of the overall market decline of call traffic, and a shift in the sales focus of the Group to meet the higher demand for cloud and managed services. During the year, a large low margin customer contract was not renewed and this customer has now migrated away.

The Group continues to migrate customers proactively to the replacement SIP based service. During the year, the number of SIP lines has increased by 3% overall. In 2018, we expect to see accelerated growth of SIP channels as we move more customers onto our cloud platform.

Data connectivity revenues increased by 38% over the previous year, driven by the high growth of our ICON cloud suite of services. We have previously highlighted the quicker than expected migration away of two large legacy WAN customers (not on the ICON platform) in the second half of the year, which had a material impact on Maintel's performance in this division.

The growth of our ICON cloud services continued throughout the year, particularly ICON Communicate, our unified communications service, which delivered growth of c.80% in contracted seats over the previous year. The trend of larger customers moving to the cloud accelerated, with a major utility company moving its Avaya enterprise unified communications and contact centre services onto the ICON platform. This customer will also benefit from moving to ICON Secure, our cloud-based network security proposition that continues to gain traction.

Over 50% of our near term sales prospect pipeline of unified communications and contact centre opportunities are cloud-based, a significant increase over the previous period.

As highlighted previously, the Group continued to invest in the ICON platform throughout the year to ensure it is well positioned to capitalise on the significant opportunity for ICON cloud services. As part of this focus, the Group has appointed a cloud services director, reporting to the CEO, and increased the size of the cloud services team, to drive the expansion and delivery of our cloud platform and services. Planned new developments include our Software Defined WAN (SD-WAN) product, currently being trialled, a cloud-based payment card industry compliant secure payment product (PCI) to be launched shortly with a major insurance company, health and social care network (HSCN) connectivity/compliance and enhanced automation across all elements of the ICON platform to speed up customer on-boarding, reporting and the end-to-end customer experience.

## Mobile division

Maintel mobile derives its revenue primarily from commissions received under its dealer agreements with Vodafone and O2 and from value added services such as mobile fleet management and mobile device management.

| | 2017 £000 | 2016 £000 | Decrease |
|---|---|---|---|
| **Maintel (excluding Intrinsic)[(g)]** | | | |
| Revenue | 6,898 | 6,947 | (1)% |
| Gross profit | 3,281 | 3,385 | (3)% |
| Gross margin (%) | 48% | 49% | – |
| **Total Maintel Group** | | | |
| Number of customers | 1,516 | 2,476 | (39)% |
| Number of connections | 42,108 | 51,935 | (19)% |

(g) Intrinsic had £Nil of mobile revenues in 2017.

# Business review continued

As highlighted in the 2016 annual report, as part of integrating Azzurri, the Group undertook a strategic review of its mobile business, resulting in the decision to reduce its presence in the small business space. This reduces the Group's exposure to mobile and re-focuses our sales activity in line with the other product propositions in the target mid-market sector.

This activity is now complete and as a result, the customer base and number of connections have reduced by 39% and 19% respectively.

Following this process, mobile revenues have now stabilised with only a small decrease of 1% over the previous year to £6.9m (2016: £6.9m). The average number of handsets per customer has increased by c.30%, as the Group's focus has successfully moved towards the mid-market sector.

Gross profit of £3.3m was delivered, with gross margin reducing slightly to 48% from 49% in 2016. However, on an adjusted basis removing one off contributions received in 2016 for divesting the small customer base, the underlying gross margin has remained broadly flat.

Our sales focus is on cross-selling into our existing customer base, and with fewer than 20% of our customers currently taking our mobile offer, this remains a significant opportunity, with the acquisition of Intrinsic offering further cross-selling opportunities.

O2 remains our largest network partner with 84% of connections being on their network.

During 2018, it is planned to launch a wholesale proposition to complement our dealer arrangements, allowing increased flexibility on customer tariffs, and opening up opportunities not currently available to the Group.

## Other operating income

Other operating income of £155,000 (2016: £151,000) constitutes a full year rental income from the sub-letting of a part of the Group's London premises. The sub-lease runs until November 2020 with a break option in December 2018.

## Administrative expenses, excluding intangibles amortisation and exceptional expenses

| Administrative expenses(h) | 2017 £000 | 2016 £000 | Increase |
|---|---|---|---|
| **Maintel (excluding Intrinsic)** | | | |
| Maintel sales expenses | 13,363 | 12,056 | 11% |
| Maintel other administrative expenses | 12,317 | 11,008 | 12% |
| **Maintel (excluding Intrinsic) total administrative expenses** | 25,680 | 23,064 | 11% |
| **Intrinsic** | | | |
| Intrinsic sales expenses | 996 | – | – |
| Intrinsic other administrative expenses | 507 | – | – |
| **Intrinsic total administrative expenses** | 1,503 | – | – |
| **Total Maintel Group** | | | |
| Total sales expenses | 14,359 | 12,056 | 19% |
| Total other administrative expenses | 12,824 | 11,008 | 16% |
| **Total administrative expenses** | 27,183 | 23,064 | 18% |

(h) Excluding intangibles amortisation, management recharges and exceptional expenses.

Some of Intrinsic's inherited costs are now shared across the Group, with the above figures reflecting the costs in respect of the entity to which they are contracted, rather than the entity which obtains the benefit, and as such are indicative only, with a view to showing the control that continues to be exercised over administrative expenses and the more significant movements.

Total administrative expenses for the Group increased to £27.2 m (2016: £23.1m). Excluding Intrinsic, Maintel's costs are 11% higher at £25.7m from £23.1m in 2016 driven in the main by twelve months inclusion of Azzurri. Total administrative expenses as a percentage of total revenue have reduced to 20% from 21% in 2016.

Annualised savings of £5.0m had already been delivered as at 31 December 2016, as Azzurri was integrated into the Group, ahead of the £4.6m of annualised synergies identified at the time of the transaction.

In addition, as part of the integration of Intrinsic and an ongoing review of operational efficiencies a further £3.0m of annualised savings were delivered in Q4 2017 from the Group's total overhead base.

The Group's headcount as at 31 December 2017 was 670 (31 December 2016: 655), reflecting a reduction of 12% after taking into account Intrinsic's headcount of 103 at the date of its acquisition.

Property costs in 2017 were reduced by £0.4m from the lease assignment to a new tenant and the subsequent sub-let of space at our Weybridge site.

Costs relating to accounting for share options increased to £0.3m (2016: £0.1m).

As we progress further with our integration plan, total administration costs will continue to be tightly controlled and we expect to deliver further cost savings in H1 2018.

## Exceptional costs

A breakdown of the exceptional costs of £1.5m (2016: £4.2m) shown in the income statement is provided in note 12. The main elements are legal and professional fees associated with the acquisition of Intrinsic (£0.3m) and staff related restructuring costs associated with the integration of the Intrinsic business and the ongoing review of the Group's operating cost base (£1.1m).

## Intangibles amortisation

The intangibles amortisation charge increased in the year due to a full year's charge in respect of Azzurri compared to eight months in 2016 and five months' charge relating to Intrinsic. Impairment and amortisation charges are discussed further below.

## Foreign exchange

The Group's reporting currency is Sterling; however, it trades in other currencies, notably the Euro, and has assets and liabilities in those currencies. The Euro rate moved from €1.17 = £1 at 31 December 2016 to €1.13 = £1 at 31 December 2017 and the US Dollar rate moved from $1.24 = £1 at 31 December 2016 to $1.36 = £1 at 30 December 2017. The effect of this and other movements in the period was a net gain to the income statement of £149,000 (2016: £33,000 gain), which is included in other administrative expenses.

The exchange difference arising on the retranslation at the reporting date of the equity of the Group's Irish subsidiary, whose functional currency is the Euro, is recorded in the translation reserve as a separate component of equity, being a charge of £9,000 in the period (2016: £40,000).

## Interest

The Group recorded a net interest charge of £0.9m in the year, in line with 2016.

## Taxation

The consolidated statement of comprehensive income shows a tax rate of 12.3% with a tax charge of £0.4m (2016: £13,000) on a profit before tax of £3.5m (2016: £2.1m) for the reasons described below.

Each of the Group companies is taxed at 19.25%, with the exception of Maintel International Limited, which is taxed at 12.5% (2016: 20%; 12.5%) respectively. Certain expenses that are disallowable for tax raise the underlying effective rate above this.

The tax charge in the period benefitted from a deferred tax credit of £0.5m, reflecting an increase in the deferred tax asset based on the directors' assessment that more tax losses, arising originally from the Datapoint acquisition, are likely to be useable in the future. This was offset by a deferred tax charge of £0.2m associated with the creation of an intangible asset relating to software licences.

This is described further in note 21.

# Business review continued

## Dividends and adjusted earnings per share

A final dividend for 2016 of 17.4p per share (£2.5m in total) was paid on 18 May 2017. An interim dividend for 2017 of 14.7p (£2.1m) was paid on 5 October 2017. The board is pleased to confirm an increase in the full year dividend of 10% for the financial year ending 31 December 2017, resulting in a final dividend of 19.1p per share being proposed. This would take the total dividend payment for 2017 to 33.8p.

In accordance with accounting standards, the final dividend is not accounted for in the financial statements for the period under review, as it had not been committed as at 31 December 2017.

## Consolidated statement of financial position

Net assets, including Intrinsic, decreased by £1.1m in the year to £27.1m at 31 December 2017 (31 December 2016: £28.2m) due to the comprehensive income earned in the period and grant of share options offset by dividends paid.

Intangible assets valued at £67.5m, increased by £4.3m, driven by intangibles arising on the acquisition of Intrinsic (see note 14) and software licences purchased, offset by the amortisation charge in the year of £5.9m (2016: £4.7m).

The net book value of property, plant and equipment decreased by £1.8m to £1.5m (2016: £3.3m). This was primarily driven by the reclassification of the Burnley freehold property, valued at £1.5m, to current assets as a result of the decision taken to market the property for sale (see note 17 for further details). The additional £0.3m decrease was the net effect of additions of £0.4m, including acquired assets from Intrinsic of £0.2m, offset by the depreciation charge of £0.7m.

Trade receivables increased by £1.6m in the year to £19.0m, with £1.1m attributable to Intrinsic. Excluding Intrinsic, the increase of £0.5m is due to the net effect of a number of phasing differences in both technology and managed service invoicing spanning the year-end.

Prepayments and accrued income increased by £5.4m to £17.0m. Excluding Intrinsic, the increase was £2.2m, most of this being driven by: (a) higher level of accrued income (£0.9m), associated with one large project; (b) increase in prepaid costs relating to hardware funds from the mobile business (£0.3m); and (c) lower level of revenue deferrals (£1.0m), driven by a fewer number of large scale projects at year end 2017 compared to year end 2016.

Assets held for resale of £1.5m relates to the freehold property in Burnley, following the decision to market the property for sale (see note 17).

Inventories are valued at £3.3m, a decrease of £1.6m in the year, notwithstanding Intrinsic contributing £0.1m. The value of stock held for resale reduced by £1.4m due to the timing of customer deliveries, with some large projects at year-end 2016 not being replicated at year-end 2017. Maintenance service stock reduced by £0.2m due mainly to the results of regular revaluation.

Trade payables increased by £3.6m in the year to £13.5m (2016: £9.9m). Excluding Intrinsic, trade payables have increased by £1.5m with a number of different supplier and delivery timing factors affecting the balance.

Other tax and social security liability has decreased by £1.2m, notwithstanding a £0.7m increase attributable to Intrinsic. Excluding Intrinsic, the other tax and social liability for Maintel decreased by £1.9m. This was due to a lower VAT liability because of reduced Q4 customer invoicing in 2017 compared to 2016 and the unwinding of timing differences on VAT payments due to a change in Group registration in FY 2016.

Accruals are £6.7m (2016: £8.5m) and excluding Intrinsic have decreased by £1.8m year on year. The decrease is attributable to a combination of a higher level of accrued costs associated with several large projects in progress at 2016 year-end (£1.8m), bank interest (£0.2m), and others £0.2m.

Other payables are £3.4m compared to £3.6m in 2016, a decrease of £0.2m, primarily due to a reduced level of hardware funds and cash advances of £0.1m, linked to the mobile business, offset by others of £0.1m.

Deferred managed service income increased to £19.2m, with £4.1m attributable to Intrinsic. Excluding Intrinsic the balance has decreased by £0.9m, in the main due to invoice timing differences driven in particular by one large legacy customer that left early in Q1 2017.

Other deferred income amounted to £4.8m, but excluding Intrinsic decreased by £2.0m due to the

unwinding of two significant legacy WAN contracts in Q4 2017.

Corporation tax liabilities increased by £0.9m to £1.4m (2016: £0.5m), reflecting the estimated liability associated with the profits derived from FY 2017 trading activities offset by the utilisation of its historical tax losses and unused capital allowances. Due to the hive up of Datapoint's UK businesses into Maintel Europe in Q4 2016, the Group is currently accounting for relief of the historic Datapoint losses on a streamed basis against the profits of the trade that was transferred from the previous Datapoint UK businesses.

Non current other payables are £1.5m (2016: £0.9m) an increase of £0.6m due to increase in intangible licences.

The deferred tax liability increased by £0.2m to £2.2m (2016: £2.0m). This is partly due to the creation of a deferred tax liability of £1.1m associated with the intangibles acquired, offset by an asset of £0.2m associated with unused capital allowances of Intrinsic. The remaining movement of £0.7m is due to: (a) £0.8m application of deferred tax assets relating to historic losses and capital allowances and (b) £0.1m relating to purchase of licences, offset by credits : (a) a £1.1m intangibles amortisation charge, and (b) a £0.5m relating to an additional asset established in relation to the projected use of historic Datapoint losses.

## Intangible assets

The Group has two intangible asset categories: (i) an intangible asset represented by customer contracts and relationships, brand value, product platforms and software acquired from third party companies, and (ii) goodwill relating to historic acquisitions.

The intangible assets represented by purchased customer contracts and relationships, brand value, product platforms and software were carried at £27.8m at the period end (2016: £27.0m). The intangible assets are subject to an average amortisation charge of 18% of cost per annum in respect of the managed service and technology division, 13% per annum in respect of the network services division and 16% per annum in respect of the mobile customer relationships, with £5.9m being amortised in 2017 (2016: £4.7m), the increase being attributable to a full 12 months' charge relating to the Azzurri intangibles acquired in May 2016 and five months' charge relating to the Intrinsic intangibles acquired in August 2017.

Goodwill of £39.7m (2016: £36.1m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. The increase of £3.5m is because of the Intrinsic acquisition. No impairment has been charged to the consolidated statement of comprehensive income in 2017 (2016: £Nil).

## Property

Following the acquisition of Intrinsic, the Group benefits from three additional property leases for office and warehouse premises located in Haydock, with lease terms to 2020 and 2022 respectively, at a combined annual rental of £0.2m.

As part of management's ongoing review and consolidation of its existing property locations, the following changes have been made in 2017:

(a) In March 2017, the lease of the Weybridge property was assigned to a new tenant and Maintel has sub-let a much-reduced space. The estimated saving over the remaining term of the lease is approximately £1.0m, of which £0.4m benefited the 2017 results.

(b) In Q4 2017, the Group terminated property leases associated with its Thatcham and Manchester premises, generating annualised savings of £0.1m. Dilapidation costs of £0.1m were incurred on exit from the Thatcham office.

(c) A review was undertaken of the Burnley freehold property, which identified significant repairs to be incurred in the future, resulting in a decision to market the property, consolidate the warehousing requirements in Haydock and to lease more modern alternative office premises.

On 23 February 2018, a sale of the freehold property was successfully concluded for £1.5m and the premises leased back for up to 12 months whilst new offices are sought.

# Business review continued

## Cash flow

The Group had net debt of £27.7m, excluding issue costs of debt, at 31 December 2017 (31 December 2016: £20.1m), equating to a net debt: adjusted EBITDA ratio of 2.2x (2016: 1.6x).

An explanation of the £7.6m increase in net debt is provided below.

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Cash generated from operating activities before acquisition costs | 4,900 | 13,339 |
| Taxation | (211) | (236) |
| Capital expenditure less proceeds of sale | (1,482) | (570) |
| Finance cost (net) | (986) | (625) |
| **Free cashflow** | 2,221 | 11,908 |
| Dividends paid | (4,557) | (3,679) |
| Acquisition (net of cash acquired) | (4,895) | (45,433) |
| Acquisition costs paid | (273) | (2,515) |
| Proceeds from borrowings | 9,000 | 31,000 |
| Repayments of borrowings | (9,000) | (6,000) |
| Issue of new ordinary shares | – | 24,000 |
| Share issue costs | – | (781) |
| Issue costs of debt | (60) | (360) |
| (Decrease)/increase in cash and cash equivalents | (7,564) | 8,140 |
| Cash and cash equivalents at start of period | 10,884 | 2,784 |
| Exchange differences | (9) | (40) |
| Cash and cash equivalents at end of period | 3,311 | 10,884 |
| Bank borrowings | (31,000) | (31,000) |
| Net debt excluding issue costs of debt | (27,689) | (20,116) |
| Adjusted EBITDA | 12,524 | 12,598 |

The Group generated £4.9m of cash from operating activities (excluding acquisition costs of £0.3m), and operating cash flow before changes in working capital of £11.5m (2016: £8.5m).

As reported at H1 2017, the effects of the positive cash timing benefits from a strong trading performance in Q4 2016, which unwound in H1 2017, combined with strong growth in our ICON cloud product offering, leading to a reduction in upfront project billing, contributed to a working capital outflow of £6.9m in the year.

As a result, conversion of operating cash flow from adjusted EBITDA was 35% (2016: 84%). This was despite a strong H2 2017 cash performance which produced a strong cash conversion rate of 96% based on an H2 adjusted EBITDA of £5.5m and a net cash flow from operating activities of £5.2m.

The Group incurred exceptional costs of £1.5m during 2017 (2016: £4.2m), primarily covering acquisition, restructuring and redundancy costs associated with the acquisition of Intrinsic and an ongoing review of the Group's operating cost base.

Capital expenditure of £1.5m was comprised of intangibles relating to software licences of £0.9m and capitalised Callmedia project costs of £0.2m plus tangible assets of £0.4m.

A more detailed explanation of the working capital movements is included in the analysis of the consolidated statement of financial position.

The net finance cost of £1.0m includes £0.3m of interest relating to Q4 2016, which was paid post year-end 2016.

In managing the Group's funding costs, we have used surplus cash to reduce our utilised facility by £9.0m in the period, leaving a cash and cash equivalents balance of £3.3m at year-end (2016: £10.9m).

Including the payment of dividends in 2017 amounting to £4.6m and acquisition costs of £5.2m, the net effect when combined with a free cash flow of £2.2m, is an increase in the net debt position of £7.6m, to £27.7m.

Further details of the Group's revolving credit and overdraft facilities are given in note 22.

## IFRS 15 – *Revenue from contracts with customers* and IFRS 9 *Financial instruments*

IFRS 15 is required to be adopted for all accounting periods beginning on or after 1 January 2018. During H2 2017, the Group carried out a detailed assessment of the impact that adoption of IFRS 15 may have on the Group's revenue streams. If IFRS 15 was adopted for the current reporting period, reported revenue and profit before tax would be reduced by £6.3m and £2.2m respectively. IFRS 15 will have no impact on the cash position of the Group.

IFRS 9 is required to be adopted for all accounting periods beginning on or after 1 January 2018.

A detailed explanation of the impact of both IFRS 15 and 9 on the Group's accounting policies is provided in note 2 (s).

## Principal risks and uncertainties

The directors consider that the principal risks to the Group relate to technological advance, marketplace relationships, pricing strategies and integration risk. Some risks may be unknown to the Group and others may be more, or less, material than currently envisaged by the directors, and so the following may not give a comprehensive view of all the risks and uncertainties affecting the business.

Telecommunications hardware continues to be replaced by telecommunications software offering services that extend the traditional PBX capability towards unified communications and collaboration. This continues a trend that started 15 years ago with the transition from proprietary signalling to the use of existing IP networks, and the trend is now underway for customers to transition their traditional on-premises deployments to hosted and cloud services.

Maintel is well positioned to capitalise on that change, having invested in the skills of its people and in adding capability through a number of acquisitions in recent years. In particular, the acquisition of Azzurri in 2016 brought with it strong capability in unified communications as-a-service, cloud and managed services.

Offering these cloud services places a responsibility on the Group to ensure the continuous operations of the platforms from which they are delivered. Investment during the previous year in additional data centre and network capacity now means that the whole of the ICON platform is fully resilient and capable of withstanding catastrophic failure in any of the core data centres. During 2018, the Group will further invest in the platform, providing additional redundancy. The platform, and the networks that support it, are monitored 24/7 by the in-house network operations centre for rapid response to any outage.

Maintel has also invested in its product development function, under the direction of the chief technology and strategy officer, to ensure that the product portfolio is competitively positioned and anticipates technological change. Product roadmaps and initiatives are regularly discussed with analyst houses to test assumptions with respected third parties, and maintain strong networks with the consultant and vendor communities.

The Group has also sought to protect its high levels of recurring revenues by offering increasingly differentiated and value added services to its clients, enabling them to transfer responsibility for the management of their core communications platforms to Maintel, including the inherent risk. The Group has developed a comprehensive set of managed service offers including managed cyber security, PCI compliance and system and mobile fleet management that ensure its service offerings remain relevant and compelling.

In telecommunications, regulation plays a key role in the setting of prices and tariffs, particularly in the mobile area. To that end, the Group has reduced its dependency on revenue from mobile voice and data services, replacing it with cloud and managed service revenues. In addition to regulatory activity, fixed and mobile pricing and margins can also be impacted by the activities of both competitors and suppliers. These are mitigated by assessing anticipated regulatory and technology change, and its impact on pricing strategies, amending the Group's own pricing policies accordingly. Multiple supplier relationships are also maintained across both the fixed and mobile sector, to ensure continued access to competitive services. In telecommunications, the transition from traditional PSTN and ISDN services towards SIP continues, a migration considered to increase value for the Group.

# Business review continued

The Group has a number of key vendor relationships in both network services, unified communications, contact centre and connectivity. The failure of one of these businesses, or the acquisition of a key partner by a competitor which then significantly re-positions that partner's strategy, would represent a risk to the Group. These key partner relationships are reviewed monthly under the direction of the chief technology and strategy officer, and the Group maintains key senior relationships with all these businesses to ensure there is early indication of any prospective change.

The Group has close partner relationships with organisations such as O2/Telefonica, such that these companies and their clients constitute a significant share of its managed service base. Should these relationships be terminated, the managed service base would reduce to that extent over a period, necessitating a commensurate reduction in costs. Partnerships with other integrators continue to be developed to reduce the percentage weighting of business with these partners.

The Group's managed service contracts have a natural finite life, and are subject to competitive attack, so that there is inevitable customer churn. The directors monitor the rate and causes of churn, and implement strategies with the objective of minimising attrition and growing the customer base organically and by way of acquisition if cost effective.

The Group has stated that it will acquire suitable companies, which fit certain criteria, and recognises that there is a risk of operational disturbance in the course of integrating acquired companies into the Group's existing operations. The Group mitigates this risk by way of due diligence and detailed planning involving senior management, drawing on the experience of previous acquisitions.

## Outlook

Following the challenges faced in 2017, notably prolonged delays with several large projects, the Group has entered 2018 well placed to capitalise on future growth opportunities. We have had a promising start to the year and we continue to see a strong sales pipeline, particularly on the Avaya product portfolio and our suite of ICON cloud services. The Group has invested in core growth areas within the business, such as our successful cloud offering, and completed the acquisition of Intrinsic, which brings key strategic benefits.

Our ICON suite of cloud services continues to grow strongly, underpinning our transformation to a cloud and managed services provider in the mid-market and enterprise space.

The integration of Intrinsic is largely completed and on track to deliver the planned synergies for the Group. As a Cisco Gold Partner, Intrinsic enhances Maintel's product portfolio, particularly in LAN network security, offering our customers access to a broader range of products and services, and we have seen encouraging levels of cross-selling into the customer base.

The first few weeks of the year have seen Maintel continue its strong performance in the public sector, with several contracts being awarded.

As indicated earlier, we have returned to a dividend policy based on a pay-out ratio of at least 40% of adjusted net income. Our confidence in the business leads us to expect that the annual dividend will remain progressive in absolute terms.

**On behalf of the board**

**E Buxton**
**Chief executive**

16 March 2018

# Board of directors

## John Booth

**Non-executive chairman**

**Date of appointment**

7 June 1996

**Previous experience**

John's career has been spent in equity investment and broking where he has held a number of senior positions including Head of Equities at Bankers Trust and Co-Founder and Executive chairman of the Link Group, acquired by ICAP Plc in 2008. He has extensive venture capital experience and holds a number of non-executive directorships in investment management also chairing The London Theatre Company and Natilik Ltd. He is a trustee of several charities and also serves on their investment committees.

**External appointments**

John chairs or acts as a non-executive director of several private companies in investment management, telecoms and media and is a consultant to Herald Venture Partners.

**Board committees**

Nomination – **Chairman**
Audit
Remuneration

## Annette Nabavi

**Senior independent non-executive director**

**Date of appointment**

30 June 2014

**Previous experience**

Annette's earlier career was spent in strategy consulting and banking. She has held the positions of Global Head of Business Development at ING Barings, Managing director of XchangePoint Holdings Ltd and she was a Senior Partner at the PA Consulting Group where she focussed on strategy and marketing in the TMT sector.

**External appointments**

Annette is a non-executive director on the boards of IPSE, the Association of Independent Professionals and the Self Employed, and Gemserv Ltd, a director of Women in Telecoms & Technology (WiTT) Ltd and a member of the Advisory Board of the National Science and Media Museum. Annette also undertakes corporate finance advisory work with AHV Associates LLP.

**Board committees**

Remuneration – **Chairman**
Audit

## Nicholas Taylor

**Independent non-executive director**

**Date of appointment**

1 January 2006

**Previous experience**

Nick has extensive experience of working with growing organisations, principally in the media and communications industries. Having started his career as a management consultant working for a US strategy boutique, he went on to hold a number of senior positions – including both CFO and CEO – spanning private and quoted businesses as well as the not-for-profit sector.

**External appointments**

Nick undertakes a variety of consultancy work through his company, Hopton Hill, and is non-executive chairman of Focus Group, a telecoms business, and a non-executive director of Zinc Media Plc.

**Board committees**

Audit – **Chairman**
Nomination
Remuneration

## Eddie Buxton

**Chief executive**

**Date of appointment**

2 February 2009

**Previous experience**

Eddie has over 20 years' experience in the telecommunications sector. He joined Maintel from Redstone Plc where he was Managing Director of the telecoms division. Prior to that Eddie was Business Customer Director at Centrica Telecommunications (Onetel) which was successfully sold in 2005 to Carphone Warehouse, and held sales director roles at NTL and Cable & Wireless.

**External appointments**

None

**Board committees**

None

# Board of directors continued

## Angus McCaffery

Director

**Date of appointment**

7 June 1996

**Previous experience**

Angus co-founded Maintel in 1991 and was the Group Sales and Marketing Director until this role was assumed by Stuart Legg in late 2014. He now focuses on finding larger organic and inorganic opportunities as well as maintaining relationships with our larger partners and the overall development of Maintel.

**External appointments**

None

**Board committees**

None

## Kevin Stevens

Group integration and transformation director

**Date of appointment**

1 January 2014

**Previous experience**

Kevin joined the Group in June 2010 and has been a director of the main trading company, Maintel Europe Limited, since December 2011. He has worked in the communications and IT industry since 1981, holding senior operations and general management positions with Genesis Telecommunications, Xpert Communications, Redstone and Westcon Convergence, with a focus on improving business operations, efficiencies, process and customer service.

**External appointments**

None

**Board committees**

None

## Stuart Legg

Group sales and marketing director

**Date of appointment**

7 April 2016

**Previous experience**

Stuart has over 23 years' experience in the telecommunications industry, focussing on delivering applications for Nortel, Cisco and Avaya portfolios. He was part of the senior management team who sold Mettoni to Enghouse in 2010 and was a board member of Proximity prior to its acquisition by the Company in 2014.

**External appointments**

None

**Board committees**

None

## Mark Townsend CA

Chief financial officer

**Date of appointment**

7 April 2016

**Previous experience**

Mark is a Chartered Accountant having qualified with Price Waterhouse (now PWC) in 1988. He has extensive operational and commercial experience across FMCG, retail, construction and rental sectors. Previously he was Group finance director at Livingston Ltd. During his time there, he assisted in a successful sale of the business to a PE-backed acquirer. Prior to Livingston he was Group finance director at Brogan Group for five years and has held senior finance positions with Oriflame Cosmetics SA and Pitney Bowes Ltd.

**External appointments**

None

**Board committees**

None

# Report on corporate governance

The board's overriding objective is to produce long-term value for its shareholders.

The directors recognise the importance of sound corporate governance in achieving that objective and have developed governance policies appropriate for the size of the Group, with reference to the main provisions of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance ("the QCA Code"). Whilst the QCA Code has not been adopted in its entirety at this time, the directors note the recently announced change to the AIM Rules requiring that, from 28 September 2018, all AIM-listed companies must adopt a recognised code of corporate governance and include on their websites details of how they have complied with it together with reasons for any non-compliance.

A description of the main governance policies and procedures adopted by the Group is set out below.

## Board of directors

The Group is led by an effective board which comprises five executive directors and three non-executive directors, the latter being John Booth, who is chairman, Annette Nabavi and Nicholas Taylor. The chairman is responsible for the effective running of the board, which reviews its effectiveness on an ongoing basis. The Chief executive is ultimately responsible for all operational matters and the financial performance of the Group. Mrs Nabavi is the senior independent director.

Other than in respect of Mr Booth's and Mr Taylor's shareholdings in the Company, the non-executive directors are independent of management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. During 2016 and 2017 Anchusa Consulting Limited, a company owned by Mrs Nabavi, and Hopton Hill Limited, a company owned by Mr Taylor, provided consultancy support related to the acquisitions of Azzurri and Intrinsic; however, given the limited nature of these engagements, the board does not consider it to have compromised their independence.

The board is satisfied that the broad range and depth of the executive and non-executive experience of each of the non-executive directors underpins their individual strength of character and ability to exercise independent judgement and apply unbiased rigour to board decisions. It is also satisfied that they commit sufficient time to the fulfilment of their duties as directors of the Company.

The executive directors are Eddie Buxton who is Chief executive officer, Stuart Legg (Group sales and marketing director), Kevin Stevens (Group integration and transformation director), Mark Townsend (Chief financial officer) and Angus McCaffery who has responsibility for Business Development.

The directors' biographies on pages 23 and 24 demonstrate the experience they bring to the Group.

The board meets regularly, normally monthly, and both reviews operations and assesses future strategy for the operating activities and for the Group as a whole. It operates to a schedule of matters specifically reserved for its decision. This schedule requires that specific matters are referred to the board for consideration and approval, including those relating to the overall leadership and management of the Group, budgets, strategy, performance against objectives, significant capital expenditure and contracts, external financial reporting, dividend and treasury policies, overall systems of internal controls and risk management, remuneration and governance, along with any significant proposed changes to business operations or to the structure or capital of the Company.

The full schedule of matters reserved for the board's decision is available from the company secretary.

During the year, the Chairman also held meetings with the other non-executive directors in the absence of the executive directors, and with the CEO in the absence of the other non-executive directors. Mrs Nabavi and Mr Taylor also met in the absence of the Chairman.

The directors are required by the Company's articles to retire on a three-year rotational basis, and are required to stand for reappointment by shareholders at the annual general meeting. Although not required to retire this year in accordance with the articles, corporate governance guidance recommends that non-executive directors with more than nine years' service are re-elected annually, and John Booth and Nicholas Taylor, having been directors since 1996 and 2006 respectively, offer themselves for re-election. The board's view is that both directors bring a valuable external contribution to the board, remain independent and effectively challenge as well as support the executive directors.

# Report on corporate governance continued

In accordance with its articles, the Company provides an indemnity in respect of all of the Company's directors in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as directors. The Group also maintained insurance cover during the year for its directors and officers and those of subsidiary companies under a directors' and officers' liability insurance policy against liabilities that may be incurred by them while carrying out their duties. In each case, the directors remain liable in the event of their negligence, default, breach of duty or breach of trust.

The directors are able to seek independent professional advice as necessary, for the furtherance of their duties, at the Company's expense within designated financial limits.

The following board committees deal with specific aspects of the Group's affairs, reporting their deliberations and conclusions to the board as appropriate:

## Audit and Risk committee

Membership of the Audit and Risk committee is restricted to non-executive directors and comprises Nicholas Taylor (Chairman), John Booth and Annette Nabavi.

The board is satisfied that for the year under review and thereafter Mr Taylor has adequate recent and relevant commercial and financial knowledge and experience to chair the committee, it also considers that Mrs Nabavi and Mr Booth have such knowledge and experience.

The remit of the committee includes:

- considering the continued appointment of the external auditors, and their fees, terms of engagement and independence, including the appointment of the auditors to undertake non-audit work;
- liaising with the external auditors in relation to the nature and scope of the audit;
- reviewing the form and content of the financial statements and any other financial announcements issued by the Group, including consideration of significant issues, judgements, policies and disclosures;
- reviewing any comments and recommendations received from the external auditors and considering any other matters which might have a financial impact on the Group;
- reviewing the Group's risk management reporting processes that identify, report and monitor corporate level risks and considering annually the requirement for an internal audit function;
- reviewing the Group's statements on internal control systems and risk management processes.

The Audit and Risk committee convened twice during 2017, to review the half-year and annual financial statements. Attendees at committee meetings held in 2017 included the Chief financial officer, Chief executive officer, Group financial controller and representatives of the external auditors. All of these attended at the invitation of the chairman of the committee to facilitate the conduct of the meetings.

In 2017, it also liaised informally with the executive directors in relation to published financial information, the Azzurri and Intrinsic acquisitions and other audit-related matters. Nicholas Taylor also met separately with the external auditors during the year in the absence of executive management.

The principal issues addressed by the committee during the year were:

- the external auditors' year-end report for 2016, the review of the Group's 2016 results and the disclosures in the 2016 annual report;
- the announcement of the half-year results and interim trading update;
- the external audit plan for the 2017 financial statements, which included a review of the audit objectives, scope, timetable and deliverables;
- accounting matters and compliance with IFRS 3 (Business combinations) associated with the acquisitions of Azzurri and Intrinsic;
- Initial assessment of the implications of IFRS 15 (Revenue from contracts with customers);
- assessment of the carrying value of intangible assets in the light of the Group's 2016 results;
- the re-appointment of BDO LLP as external auditors, their independence and objectivity and their fees;
- consideration of the external auditors' observations on the internal financial controls arising from their annual audit;
- overseeing the establishment of a more formal risk reporting process, regularly reviewing its output and its operation.

BDO LLP is retained to perform audit and audit-related work for the Group. The committee monitors the nature and extent of non-audit work undertaken by the auditors, including reviewing the letter of independence provided by the auditors annually, which includes details of audit and non-audit work undertaken. The committee is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. Details of audit and non-audit fees for the period under review are shown in note 7 of the financial statements.

## Remuneration committee

Annette Nabavi is chair of the Remuneration committee, its other members being John Booth and Nicholas Taylor. The committee met three times during the year. The committee's report to shareholders on directors' remuneration is set out on page 29.

## Nomination committee

The Nomination committee had two members during 2017, both non-executive, being John Booth, chairman, and Nicholas Taylor. Annette Nabavi, the senior independent director, was appointed to the committee on 28 February 2018 to provide it with further depth. The committee's terms of reference include:

- reviewing the structure, size and composition of the board; and
- identifying and nominating suitable candidates to fill vacancies on the board.

The committee meets as required and met once in 2017, Eddie Buxton also attending the meeting by invitation, to consider the reappointment of Annette Nabavi as a non-executive director following the expiry of her fixed term appointment; the reappointment was agreed, on a continuing basis subject to three months' notice.

The Nomination committee regularly informally assesses the structure of the board and its performance and is satisfied that the present board is suitably diverse and well balanced to deliver the Company's current strategic goals. The board acknowledges that some directors have served for many years, but considers that this brings valuable experience and teamwork to the board. It also acknowledges that John Booth (the non-executive chairman) and Angus McCaffery (executive director) have significant shareholdings in the Company, but considers that this aligns their interests with those of shareholders as a whole.

Corporate governance

## Board attendances

The following table shows the attendance of the directors at meetings of the board and the Audit and Risk, Remuneration and Nomination committees during the year.

| Number of meetings in the year | Board | Audit & risk committee | Remuneration committee | Nomination committee |
|---|---|---|---|---|
| J Booth | 20 | 2 | 3 | 1 |
| E Buxton | 20 | – | – | – |
| S Legg | 18 | – | – | – |
| A McCaffery | 16 | – | – | – |
| A Nabavi | 20 | 2 | 3 | – |
| K Stevens | 20 | – | – | – |
| N Taylor | 20 | 2 | 3 | 1 |
| M Townsend | 19 | – | – | – |

In addition to the regular monthly meetings, additional meetings were held during the year relating to the acquisition of Intrinsic, the transfer of Intrinsic's share capital to Maintel Europe Limited and amendments to banking arrangements.

## Conflicts of interest

The Group has established procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the directors may have and for the authorisation of such conflict matters by the board. The board considers that these procedures are operating effectively.

## Relationship with shareholders

The Strategic report on pages 4 to 22, incorporating the Chairman's statement, includes a detailed review of the business and future developments.

# Report on corporate governance
continued

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 as required.

The directors meet with institutional and other shareholders when possible, usually following the announcement of the Group's results, to keep them informed about the performance and objectives of the business. Annette Nabavi also attended certain shareholder meetings during 2017, representing the non-executive directors, to better understand the shareholders' views and to ensure there is an independent channel to the board, should that be necessary.

The annual general meeting provides a further forum for shareholders to communicate with the board. Details of resolutions to be proposed at the annual general meeting are set out in the notice of meeting.

## Internal control

The board is ultimately responsible for the Group's systems of internal control, and for reviewing their effectiveness. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The board believes that the Group has internal control systems in place appropriate to the size and nature of its business.

The Group maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the board before being formally adopted, following which the board receives at least monthly financial reports of the Group's performance compared to the budget, with explanations of significant variances. Monthly cash flow forecasts are provided to the board, as are budget reforecasts if deemed appropriate.

The executive directors monitor key performance indicators on a monthly basis, management of these being delegated to the Group's senior management.

The key operational functions of the Group are subject to processes established and externally audited under ISO9001, ISO20000, ISO18001 and ISO27001, which the directors consider to be a valuable additional internal and external control tool of the business.

The directors do not consider that an internal audit function is required, given the size and nature of the business at this time. This situation is reviewed annually.

## Operating control

Each executive director has defined responsibility for specific aspects of the Group's operations. The executive directors, together with key senior executives, meet regularly – both informally and at monthly operational board meetings – to discuss operational matters.

## Risk management

The board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage these risks. It reviews a dynamic risk report at each board meeting, the process behind which is monitored by the Audit and Risk committee. The Group's approach to financial risk management is further explained in note 23 to the financial statements.

## Bribery Act 2010

The board performs an ongoing assessment of the risk environment and maintains a framework to ensure that the Group trades in compliance with the UK Bribery Act 2010.

## Investment appraisal

Capital expenditure is controlled via the budgetary process, the budget being approved by the board. Expenditure is approved as required by the Chief executive officer. The board reviews acquisitions and significant unbudgeted capital expenditure as they arise.

## Going concern

The Group has a sound financial record including strong operating cash flows derived from a substantial level of recurring revenue across a range of sectors and as a consequence, and after reviewing cash balances, borrowing facilities and projected cash flows, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

# Report of the remuneration committee

## Scope of the report

The remuneration report summarises the remuneration committee's activities during the year, the outcomes for directors' remuneration and the Group's remuneration policy. The report also describes how the Group applies the principles of good corporate governance in relation to directors' remuneration.

## The remuneration committee

The remuneration committee is appointed by the board and comprises only non-executive directors. The committee meets at least annually to determine, on behalf of the board, the framework of executive remuneration.

During the year, the membership of the committee comprised three non-executive directors, Annette Nabavi (chairman), John Booth and Nicholas Taylor.

The board approves the committee's terms of reference. These are available for inspection from the Company secretary. The members of this committee do not have any conflicts from cross-directorships that relate to the business of the committee. The members do not have any day-to-day involvement in the running of the Group.

The Remuneration committee's remit is to review and determine the broad policy regarding remuneration of the executive directors and of any management receiving an annual remuneration, excluding commission, of more than £150,000. In the case of the executive directors, it is to determine the entire individual remuneration and incentive packages, including the setting and monitoring of any bonus or share scheme performance conditions. To support this responsibility it has access to professional and other advice external to the Group. Considering these factors, it then makes recommendations to the board.

During the year, the committee met on three occasions.

To assist the work of the committee, the views of the Chief executive officer are also invited where appropriate. However, he does not participate in any decision related to his own remuneration.

## Remuneration policy

The Group is committed to the governing objective of maximising shareholder value over time. Each year the remuneration framework and the packages of the directors are reviewed to ensure they continue to achieve this objective.

The Group operates in large competitive markets with areas of significant growth potential. The Group's executive director remuneration policy is designed to attract and retain directors of the calibre required to maintain the Group's position in its marketplace.

The key features of remuneration and the policy for each element of the packages for executive directors are shown in the table below:

| Element of remuneration | Purpose and link to strategy | Policy and approach |
|---|---|---|
| Base salary | To pay a competitive sustainable level of fixed remuneration, taking into account experience and personal contribution to the Group's strategy. Intended to attract and retain the talent (management and technical) required to execute the strategy. | Reviewed annually by the committee in January. Salary increases will normally be in line with pay review levels across the whole Group. However, reference is also made to changes in role and responsibility. Reference is also made to comparisons with companies of similar size and complexity. |
| Benefits | These complement an executive's basic salary and are designed to ensure the well-being of employees. | Benefits comprise pension contribution (typically 3% of basic salary except in the case of Mark Townsend who receives a fixed sum of £10,000 per annum), car allowance, and membership of private health, permanent health and life assurance schemes. |

Corporate governance

# Report of the remuneration committee continued

| Element of remuneration | Purpose and link to strategy | Policy and approach |
|---|---|---|
| Bonus | A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. | Goals and objectives are set individually with a significant weight being put on meeting annual budget in terms of both revenue and adjusted EBITDA targets. Other objectives include KPIs designed to increase the overall productivity of the Group and KPIs focussed on ensuring the Group's move to cloud-based solutions is achieved.<br><br>For Stuart Legg, the majority of his bonus derives from his sales commission. The commission payments were based on the achievement of gross profit for the Group as a whole. Stuart was also targeted with a small variable bonus of up to £10,000, in addition to his sales commission, based on the achievement of revenue and adjusted EBITDA targets for the Group.<br><br>Apart from Stuart Legg, whose commission was set at a maximum of 94% of base salary, executive directors' bonuses are set at between 20% and 35% of base salary. All the KPIs and financial targets have to be met for an executive director to receive a full bonus. |
| Long term incentive plan (LTIP) | To encourage and reward delivery of the Group's long-term growth objectives and provide alignment with shareholders through the use of share based incentives. | All share-based incentives offered to executive directors have three-year retention schedules. Grants made under the Company share option plan (CSOP) are at market price at the date of grant. Grants made so far under the LTIP are provided as zero cost options with strict performance conditions based mainly on the achievement of EPS growth and upper quartile valuation metrics. Vesting is also subject to continuing employment. New LTIP grants will use performance conditions of adjusted EPS growth as before, but substitute share price growth for upper quartile valuation because of the issues around suitable comparators.<br><br>When granting options, the committee takes into account the potential value that will be created under the performance conditions attached to the grant. At the discretion of the Remuneration committee, payments may be made to participants on the exercise of share options (other than a market value option) equivalent to the value of dividends declared since the date of grant on the number of shares they acquire. |

The remuneration committee considers that the levels of bonus and LTIP payable are sufficient, but not excessive, to motivate the directors whilst being proportionate to the value created for the benefit of shareholders.

Eddie Buxton, Mark Townsend, Stuart Legg, Kevin Stevens, Rufus Grig and James Stevenson have been granted share options, details of which are shown below.

## Directors' service agreements

Executive directors' service agreements, which include details of remuneration, will be available for inspection at the annual general meeting. Each executive director has a six-month rolling service agreement.

## Non-executive directors

The non-executive directors each have a contract terminable on three months' notice.

The remuneration of the non-executive directors is agreed by the executive directors, and is based upon the level of fees paid at comparable companies and taking account of the directors' evolving responsibilities. Taking these factors into account, the remuneration of the non-executive directors was reviewed on 1 February 2018. The non-executives receive no payment or benefits other than their fees and associated auto-enrolment pension contributions, although Mrs Nabavi and Mr Taylor were beneficiaries of consultancy fees during the year and in 2016, as described below.

## Directors remuneration

The remuneration of the directors in office during the year was as follows:

| | Salaries/ fees | Benefits | Bonus[5] | Pension contributions | Total 2017[1] | Total 2016[1,2] |
|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | |
| J D S Booth | 47 | – | – | – | 47 | 42 |
| A P Nabavi[3] | 35 | – | – | – | 35 | 30 |
| N J Taylor[4] | 35 | – | – | – | 35 | 31 |
| **Executive directors** | | | | | | |
| E Buxton | 231 | 16 | – | 7 | 254 | 272 |
| S Legg | 298 | 11 | – | 5 | 314 | 235 |
| A J McCaffery | 92 | 22 | – | 3 | 117 | 210 |
| K Stevens | 154 | 11 | – | 5 | 170 | 186 |
| W D Todd | – | – | – | – | – | 50 |
| M Townsend | 169 | 15 | – | 10 | 194 | 152 |
| | 1,061 | 75 | – | 30 | 1,166 | 1,208 |

(1) Excluding social security costs in respect of the above amounting to £145,000 (2016: £152,000).

[2] Total 2016 remuneration of £1,208,000 includes bonuses of £150,000, employer pension contributions of £27,000 and benefits of £66,000, so that salaries amounted to £965,000.

[3] In addition to her fees as a director stated above, the Company paid £4,000 (2016: £57,000) to a company of which Mrs Nabavi is a shareholder and director in respect of consultancy services provided to the Company during the year.

[4] In addition to his fees as a director stated above, the Company paid £7,000 (2016: £61,000) to a company of which Mr Taylor is a shareholder and director in respect of consultancy services provided to the Company during the year.

[5] No bonus was paid to any executive director in respect of 2017 performance except commissions paid to Stuart Legg, which are included in his salary.

## Directors' interests in ordinary shares

The directors' interests in the ordinary shares of the Company are shown in the report of the directors on page 34. These include the holdings of all executive directors under the Company's Share Incentive Plan.

## Share options

On 18 May 2009, the directors of the Company approved the adoption of the Maintel Holdings Plc 2009 Option Plan. The following options remain outstanding under the Plan:

| Option holder | Number of shares | Date of grant | Option price | Expiry of option |
|---|---|---|---|---|
| Eddie Buxton | 107,818 | 18 May 2009 | 200p | 18 May 2019 |
| Eddie Buxton | 107,818 | 18 May 2009 | 300p | 18 May 2019 |
| Dale Todd | 10,000 | 17 April 2013 | 345p | 17 April 2023 |
| Dale Todd | 10,000 | 19 December 2013 | 525p | 19 December 2023 |
| Kevin Stevens | 10,000 | 29 May 2014 | 530p | 29 May 2024 |

All options above have vested.

# Report of the remuneration committee
## continued

On 20 August 2015, the directors of the Company approved the adoption of the Maintel 2015 Long-Term Incentive Plan. The following options remain outstanding under the Plan:

| Option holder | Number of shares | Date of grant | Normal vesting date | Option price | Expiry of option |
|---|---|---|---|---|---|
| **As CSOP options** | | | | | |
| Eddie Buxton | 3,409 | 27 April 2016 | 27 April 2019 | 880p | 27 April 2026 |
| Stuart Legg | 3,409 | 27 April 2016 | 27 April 2019 | 880p | 27 April 2026 |
| Kevin Stevens | 3,409 | 27 April 2016 | 27 April 2019 | 880p | 27 April 2026 |
| Mark Townsend | 3,409 | 27 April 2016 | 27 April 2019 | 880p | 27 April 2026 |

These options are not subject to any performance conditions.

| Option holder | Number of shares | Date of grant | Normal vesting date | Option price | Expiry of option |
|---|---|---|---|---|---|
| **Subject to performance conditions** | | | | | |
| Stuart Legg[1] | 25,000 | 27 April 2016 | 27 April 2019 | 1p | 27 April 2026 |
| Kevin Stevens[2] | 15,000 | 27 April 2016 | 27 April 2019 | 1p | 27 April 2026 |
| Mark Townsend[3] | 15,000 | 27 April 2016 | 27 April 2019 | 1p | 27 April 2026 |
| Eddie Buxton[4] | 10,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |
| Rufus Grig[5] | 8,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |
| Stuart Legg[1] | 25,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |
| Kevin Stevens[6] | 5,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |
| James Stevenson[7] | 8,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |
| Mark Townsend[3] | 15,000 | 10 April 2017 | 10 April 2020 | 1p | 10 April 2027 |

[1] Full vesting for the LTIP grants made to Stuart Legg are subject to three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, (b) The Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting, and (c) achievement of the Group sales target as set in the budget agreed by the board each year. The sales target condition attaching to the options granted on 27 April 2016 was achieved and in respect of those granted on 10 April 2017 was partially achieved.

[2] In the case of Kevin Stevens, full vesting is subject to the achievement of a minimum level of synergies following the acquisition of Azzurri, which has been achieved, so that these options will vest in full on 27 April 2019.

[3] In the case of Mark Townsend, full vesting is subject to two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting.

[4] In the case of Eddie Buxton, full vesting is subject to two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting.

[5] In the case of Rufus Grig, full vesting is subject to two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) achievement of a defined growth in the number of users of the Group's cloud services.

[6] In the case of Kevin Stevens, full vesting is subject to three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting, and (c) delivery of defined transformation projects during 2017. The transformation project target for 2017 has been partially achieved.

[7] In the case of James Stevenson, full vesting is subject to two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) progressive improvement in defined SLAs in the period before the option vests.

If the performance conditions are not fully satisfied at the end of the vesting date, then the options will vest proportionately against the achievement of certain threshold criteria; any portion that has not vested as a consequence of the performance conditions not being satisfied in full or on a threshold basis will lapse.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

| | 2017 Number of options | 2017 WAEP | 2016 Number of options | 2016 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 314,272 | 254p | 245,636 | 276p |
| Granted during the year | 71,000 | 1p | 68,636 | 176p |
| Outstanding at the end of the year | 385,272 | 208p | 314,272 | 254p |

The Company's mid-market share price at 31 December 2017 was 630p per share, and the high and low prices during the year were 1040p and 615p respectively.

## Share Incentive Plan

In 2006, the Company established the Maintel Holdings Plc Share Incentive Plan ("SIP"), which was updated in 2016. The SIP is open to all employees with at least six months' continuous service with a Group company, and allows employees and executive directors to subscribe for existing shares in the Company at open market price out of their gross salary. The subscribers own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan. At 31 December 2017, there were 65,564 shares held by the SIP, representing 0.5% of the issued share capital of the Company (2016: 62,151 and 0.4%).

The report of the remuneration committee was approved by the board on 16 March 2018.

**A P Nabavi**
**Chair of the remuneration committee**

# Report of the directors

The directors present their annual report together with the audited financial statements for the year ended 31 December 2017.

## Results and dividends

The consolidated statement of comprehensive income is set out on page 43 and shows the profit of the Group for the year.

During the year the Company paid a final dividend of 17.4p per ordinary share in respect of the 2016 financial year, amounting to £2.5m (2016: a second interim dividend of 16.5p, amounting to £1.8m), and an interim dividend in respect of 2017 of 14.7p per share, amounting to £2.1m (2016: 13.4p and £1.9m respectively). A final dividend for 2017 is proposed of 19.1p per share with a payment date of 11 May 2018.

## Directors

The directors of the Company during the year and their interests in the ordinary shares of the Company at 31 December 2017 were as follows:

| | Number of 1p ordinary shares | | | |
|---|---|---|---|---|
| | **2017 Beneficial** | **2017 Non-beneficial** | **2016 Beneficial** | **2016 Non-beneficial** |
| J D S Booth | 3,332,123 | 4,000 | 3,332,123 | 4,000 |
| E Buxton | 5,178 | 60,386 | 4,813 | 57,338 |
| S D Legg | 321 | – | 130 | – |
| A J McCaffery | 2,199,454 | – | 2,198,959 | – |
| A P Nabavi | 198 | – | 198 | – |
| K Stevens | 3,220 | – | 2,939 | – |
| N J Taylor | 16,315 | 65,564 | 16,315 | 62,151 |
| M V Townsend | 214 | – | 208 | – |

John Booth is a shareholder in Herald Investment Trust Plc, which has an interest in 804,217 1p ordinary shares in the Company; this is in addition to Mr Booth's beneficial holding above.

John Booth also holds 4,000 non-beneficial shares which are held in a charitable foundation of which he is a trustee.

The other non-beneficial holdings above relate to holdings of the Share Incentive Plan, of which the respective directors are trustees.

Since the year-end, the Share Incentive Plan has acquired a net increased holding of 1,092 shares in total, including 64 in respect of S Legg and 65 in respect of K Stevens. There were no other changes in the directors' shareholdings between 31 December 2017 and 16 March 2018.

## Substantial shareholders

In addition to the directors' shareholdings, at 16 March 2018 the Company had been notified of the following shareholdings of 3% or more in the ordinary share capital of the Company:

| | **Number of 1p ordinary shares** | **% of issued ordinary shares** |
|---|---|---|
| Hargreave Hale Ltd | 2,295,649 | 16.2% |
| J A Spens | 2,088,314 | 14.7% |
| Herald Investment Trust Plc | 804,217 | 5.7% |

## Share capital

Details of the share capital of the Company are shown in note 24 of the financial statements.

No shares were issued or repurchased during the year.

The existing authority for the repurchase of the Company's shares is for the purchase of up to 2,128,139 shares. A fresh authority, for the purchase of up to 2,128,139 shares, will be sought at the forthcoming annual general meeting.

## Employees

Maintel's success is dependent on the knowledge, experience and motivation of its employees, and the ability to attract and retain those staff. The Group offers competitive compensation packages, including bonus structures where appropriate, to align employee interest with that of the Group. The Group's management ensures that there is continual investment in external and internal training of employees, and monitors compliance with both statutory regulation and best practice with regard to equal opportunities.

The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and to their training and career development. This includes, where applicable and possible, the retraining and retention of staff who become disabled during their employment.

The Group runs an apprenticeship programme into which it has continued to recruit apprentices during 2017. The value of this programme has been recognised across the business where apprentices have successfully transitioned into permanent roles.

A weekly update is emailed to employees covering various aspects of the Group and its employees, and a Group intranet is core to open communication amongst employees; this continues to be developed.

An employee forum – Maintel Matters, consisting of employees from across the business – exists, to promote two-way communication between the board and employees, and its mode of operation continually develops. This communication is supplemented by the use of regular employee surveys, with action taken on the results where practicable.

The Company established a Share Incentive Plan in 2006, allowing employees and executive directors to invest tax effectively in its shares, and so aligning employee interests with those of shareholders. Under the plan, shares are acquired by employees out of pre-tax salary, with ownership vesting at that time, and are held by trustees on behalf of the employees. The plan is therefore separate from the assets of the Group.

The Group has recently published its first Gender Pay Gap report, the key results of which are shown below, together with the board's observations on them:

- The mean hourly pay difference was 31%.
- The median hourly pay difference was 39%.
- The source data was collected on 5 April 2017; at that date, the Group employed 430 men and 170 women. This highlights that the gender pay gap of 31% is likely to be because of the gender diversity of the organisation itself and the types of roles, which women currently take in Maintel's sector, which is heavily non-technical.

The telecoms industry in general employs significantly more men than women and so Maintel is therefore representative of the talent pool that it can select from. The board accepts that it needs to play its part in attracting more women into both the sector more broadly and into specific careers such as engineering and sales, which are generally well paid but are predominantly chosen by men, and it is committed to doing this.

The Group also has a significantly higher number of men than women in senior roles; in fact, the board itself is representative of this with only one female director. To alter this balance across the Group, the board acknowledges that it must have more women being promoted up through the organisation and an increase in the underlying talent pool will help it to do this.

The number of apprentices entering the industry is male dominated and, whilst Maintel does have some female success stories in this area, it needs to support schools and colleges to encourage both male and female students into future apprenticeship schemes; clearly, this will help to balance the gender split of the talent pools in the future.

# Report of the directors continued

## Environment

The Group acknowledges its responsibilities for environmental matters and where practicable adopts environmentally sound policies in its working practices, such as recycling paper and packaging waste and using specialist recyclers of scrap telecommunications and IT equipment. A major consideration when replacing company cars is their impact on the environment. The Group also makes use of in-house video-conferencing facilities to reduce the need for regional meetings and operates flexible working practices where possible, reducing the environmental impact of commuting. The Group has ISO14001:2004 accreditation for its environmental management systems.

## Modern Slavery Act policy

The Modern Slavery Act became law in 2015. The Act consolidates slavery and trafficking offences and introduces tough penalties and sentencing for breaches of the Act.

The Group has a zero-tolerance approach to modern slavery and will not knowingly support or deal with any business which is involved in slavery and/or human trafficking.

This policy reflects our commitment to maintaining ethical practices in all of our supply chains and across all of our business, and as part of this commitment we are undertaking various steps to help us manage the risks outlined by this legislation. These steps are detailed in our modern slavery statement and, as required by the act, are published annually on our website at maintel.co.uk.

## Future developments

Refer to outlook section of the Strategic report on page 22.

## Financial instruments

Details of the use of financial instruments by the Group are contained in note 23 of the financial statements.

## Annual General Meeting

The Annual General Meeting of the Company will be held at its London offices on 8 May at 10.00 am.

The Company's Articles include a provision allowing the Company to issue scrip dividends to shareholders as an elected alternative to cash dividends, provided shareholders have previously approved this by ordinary resolution, for a given period of up to five years following the passing of such a resolution. In order to provide the Company with this flexibility without having to call a separate general meeting, the AGM notice of meeting includes a resolution that would permit the Company to offer, alongside a cash dividend, an alternative scrip dividend facility, for a period of three years following the date of the AGM. The board has no present intention of offering this facility, but believes that it would be beneficial to have this option available to it.

## Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to ensure that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution proposing the re-appointment of BDO LLP as auditors of the Company will be proposed at the forthcoming annual general meeting.

**On behalf of the board**

**E Buxton**
Director

16 March 2018

# Statement of directors' responsibilities

## Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union (FRS101 in the case of the Parent company), subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# Independent auditor's report

## Independent auditor's report to the members of Maintel Holdings Plc

### Opinion

We have audited the financial statements of Maintel Holdings Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cashflows, the company balance sheet, the company reconciliation of movements in shareholders' funds and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Matter | How we addressed the matter in our audit |
|---|---|
| *Revenue recognition for managed services and technology sales* | |
| The Group has a number of revenue streams. Details of the accounting policies applied during the period are given in note 2 (c) to the financial statements.<br><br>Management make certain judgements in relation to revenue recognition for managed services and technology sales and the treatment of contractual arrangements entered into by trading entities in the group.<br><br>These include determining as at the reporting date:<br>• whether risks and rewards of ownership have transferred to the customer for the supply of hardware and software, and<br>• an estimate of the stage of completion for each project in progress.<br><br>There is a potential risk that revenue is recorded incorrectly from a timing perspective and that revenue is inappropriately recognised. | We assessed whether the revenue recognition policies adopted by the Group comply with IFRSs as adopted by the European Union and industry standard practices. The relevant IFRS is International Accounting Standard 18 Revenue.<br><br>In relation to managed services and technology revenues, we reviewed a sample of contracts to assess whether the revenue had been recognised in accordance with the Group's accounting policy, whether it was recognised appropriately from a timing perspective and whether any other terms within the contract had any material accounting or disclosure implications.<br><br>In making our assessment of compliance with the Group's accounting policy we tested whether hardware and software had been delivered to the customer.<br><br>To determine the stage of completion we considered how many hours had been incurred against budgeted hours, and the achievement of milestones. |
| *Acquisition accounting* | |
| As detailed in note 13 to the financial statements, the Group acquired Intrinsic Technology Ltd ("Intrinsic") during the year.<br><br>Consequently, management had to exercise judgement in considering the fair value of the assets and liabilities acquired.<br><br>Management recognised on acquisition a separately identifiable intangible asset in respect of customer relationships, exercising judgment in estimating its fair value.<br><br>There is a risk that this estimate may be materially misstated. | The judgements and estimates in this area include:<br>• underlying cash flow projections,<br>• discount rates applied, and<br>• long-term growth rates.<br><br>We challenged the assumptions underpinning the significant judgements and estimates made by management in the assessment of the fair value of the separately identifiable intangible asset acquired by comparison to industry data and our knowledge of the business.<br><br>In addition, with the assistance of our valuations specialists, we reviewed the methodology deployed.<br><br>We also considered the completeness of the separately identifiable intangible assets with reference to our understanding of the business and the key reasons for executing the transaction from the acquirer's perspective. |

# Independent auditor's report
## continued

| Matter | How we addressed the matter in our audit |
|---|---|
| *Goodwill and intangible asset impairment risk* | |
| In accordance with IAS 36 and as detailed in the accounting policies (note 2 (k)), goodwill is tested for impairment annually, and customer relationships and other intangible assets with finite lives are tested for impairment whenever an indicator of impairment arises.<br>Management performed impairment reviews over all goodwill and intangible assets at 31 December 2017.<br>Impairment reviews require significant judgement from management and are inherently based on assumptions in respect of future profitability.<br>The value in use of the goodwill and intangible assets for each of the Group's three cash generating units (managed services and technology, Network services and Mobile) was assessed as being higher than their carrying value at the reporting date.<br>Management concluded that the goodwill and intangible assets were not impaired at the reporting date. | We considered whether there were any indications of impairment in respect of intangible assets.<br>We reviewed the integrity of the impairment models prepared by management and challenged the appropriateness of the key inputs and assumptions used in them, by comparison to industry data, historic trading, and macro-economic factors. The key inputs and assumptions are forecast growth rates, operating cash flows and the discount rate.<br>Our audit procedures relating to the review of operating cash flows included, amongst other procedures, comparing the forecasts to recent financial performance and budgets approved by the Board.<br>We also performed sensitivity analysis over the key valuation inputs. |

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

*Level of materiality applied and rationale*

We consider adjusted profit before tax (profit before tax, exceptional items and amortisation) to be the critical performance measure for the Group. Using this benchmark, we set materiality at £516,000 (2016 – £625,000) which represents 5% of adjusted profit before tax (2016 – 5% of Earnings before interest, tax, exceptional items, depreciation and amortisation). Our materiality level is lower than the previous year reflecting the change in benchmark to adjusted profit before tax in the current year. We set parent company materiality at £438,600 (2016 – £460,000) which is group component materiality.

*Performance materiality*

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75%. As such, performance financial statement materiality was set at £387,000 (2016 – £468,750). Performance materiality for the parent company was set at 75% of materiality, being £328,000 (2016 – £345,000).

*Component materiality*

We set materiality for each component of the Group based on a percentage of materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £400,000 to £438,600.

*Reporting Threshold*

We agreed with the Audit Committee that we would report to them all audit differences individually in excess of £25,800 (2016 – £31,250). We also agreed to report audit differences below those thresholds that, in our view, warranted reporting on qualitative grounds. For the parent company we agreed to report all differences in excess of £21,930 (2016 – £23,000).

## An overview of the scope of our audit

All of the Group's Revenue (100%), Total Assets (100%) and Adjusted profit before tax (100%) were subject to full scope audits.  All trading entities in the group, including the company and its wholly owned subsidiaries Maintel Europe Limited ("MEL"), Maintel International Limited ("MIL") and Intrinsic Technology Limited ("Intrinsic") were subject to full scope audits.

The Group audit team performed the audits of Maintel Holdings Plc (both the Company and Consolidated Entity), MEL and MIL. The audit of Intrinsic was performed by a component auditor who is not a member of the BDO network. Detailed instructions were issued and discussed with the component auditor, and these covered the significant risks to be addressed by the component auditor. The Group audit team was actively involved in directing the audit strategy of the Intrinsic audit, reviewed in detail the findings and considered the impact of these upon the Group audit opinion.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

# Independent auditor's report
continued

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:
www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Julian Frost**
**(senior statutory auditor)**
**For and on behalf of BDO LLP, statutory auditor**
London
United Kingdom

16 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated statement of comprehensive income

## for the year ended 31 December 2017

| | Note | 2017<br>£000 | 2016<br>£000 |
|---|---|---|---|
| **Revenue** | 4 | 133,079 | 108,296 |
| Cost of sales | | (94,290) | (73,383) |
| **Gross profit** | | 38,789 | 34,913 |
| Other operating income | | 155 | 151 |
| Administrative expenses | | | |
| Intangibles amortisation | 14 | (5,892) | (4,733) |
| Exceptional costs | 12 | (1,454) | (4,240) |
| Other administrative expenses | | (27,183) | (23,064) |
| | | (34,529) | (32,037) |
| **Operating profit** | 7 | 4,415 | 3,027 |
| Financial expense (net) | 8 | (899) | (920) |
| **Profit before taxation** | | 3,516 | 2,107 |
| Taxation expense | 9 | (434) | (13) |
| **Profit for the period** | | 3,082 | 2,094 |
| **Other comprehensive expense for the period** | | | |
| Exchange differences on translation of foreign operations | | (9) | (40) |
| **Total comprehensive income for the period** | | 3,073 | 2,054 |
| **Earnings per share** | | | |
| Basic | 11 | 21.7p | 16.0p |
| Diluted | 11 | 21.3p | 15.8p |

The notes on pages 48 to 71 form part of these consolidated financial statements.

# Consolidated statement of financial position

## at 31 December 2017

| | Note | 2017 £000 | 2017 £000 | 2016 £000 | 2016 £000 |
|---|---|---|---|---|---|
| **Non current assets** | | | | | |
| Intangible assets | 14 | | 67,495 | | 63,152 |
| Property, plant and equipment | 16 | | 1,471 | | 3,293 |
| | | | 68,966 | | 66,445 |
| **Current assets** | | | | | |
| Inventories | 18 | 3,251 | | 4,882 | |
| Asset held for sale | 17 | 1,500 | | – | |
| Trade and other receivables | 19 | 37,257 | | 29,371 | |
| Cash and cash equivalents | | 3,311 | | 10,884 | |
| **Total current assets** | | | 45,319 | | 45,137 |
| **Total assets** | | | 114,285 | | 111,582 |
| **Current liabilities** | | | | | |
| Trade and other payables* | 20 | 51,367 | | 49,153 | |
| Current tax liabilities | | 1,426 | | 527 | |
| **Total current liabilities** | | | 52,793 | | 49,680 |
| **Non-current liabilities** | | | | | |
| Other payables* | 20 | 1,462 | | 943 | |
| Deferred tax liability | 21 | 2,260 | | 2,020 | |
| Borrowings | 22 | 30,707 | | 30,688 | |
| **Total non-current liabilities** | | | 34,429 | | 33,651 |
| **Total liabilities** | | | 87,222 | | 83,331 |
| **Total net assets** | | | 27,063 | | 28,251 |
| **Equity** | | | | | |
| Issued share capital | 24 | | 142 | | 142 |
| Share premium | 25 | | 24,354 | | 24,354 |
| Other reserves | 25 | | 70 | | 79 |
| Retained earnings | 25 | | 2,497 | | 3,676 |
| **Total equity** | | | 27,063 | | 28,251 |

* Comparative restated (See note 20)

The consolidated financial statements were approved and authorised for issue by the board on 16 March 2018 and were signed on its behalf by:

**M Townsend**
Director

The notes on pages 48 to 71 form part of these consolidated financial statements.

# Consolidated statement of changes in equity

## for the year ended 31 December 2017

| | Note | Share capital £000 | Share premium £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | | 108 | 1,169 | 119 | 5,164 | 6,560 |
| Profit for the period | | – | – | – | 2,094 | 2,094 |
| Other comprehensive income: | | | | | | |
| Foreign currency translation differences | | – | – | (40) | – | (40) |
| Total comprehensive income for the period | | – | – | (40) | 2,094 | 2,054 |
| Dividend | 10 | – | – | – | (3,679) | (3,679) |
| Issue of new ordinary shares | 24 | 34 | 23,966 | – | – | 24,000 |
| Share issue costs | | – | (781) | – | – | (781) |
| Grant of share options | | – | – | – | 97 | 97 |
| At 31 December 2016 | | 142 | 24,354 | 79 | 3,676 | 28,251 |
| Profit for the period | | – | – | – | 3,082 | 3,082 |
| Other comprehensive income: | | | | | | |
| Foreign currency translation differences | | – | – | (9) | – | (9) |
| Total comprehensive income for the period | | – | – | (9) | 3,082 | 3,073 |
| Dividend | 10 | – | – | – | (4,557) | (4,557) |
| Grant of share options | | – | – | – | 296 | 296 |
| At 31 December 2017 | | 142 | 24,354 | 70 | 2,497 | 27,063 |

The notes on pages 48 to 71 form part of these consolidated financial statements.

# Consolidated statement of cash flows

## for the year ended 31 December 2017

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | 3,516 | 2,107 |
| Adjustments for: | | |
| Intangibles amortisation | 5,892 | 4,733 |
| Share based payment charge | 296 | 97 |
| Loss on sale of property, plant and equipment | 156 | – |
| Depreciation charge | 763 | 598 |
| Interest received | – | (3) |
| Interest payable | 899 | 923 |
| **Operating cash flows before changes in working capital** | 11,522 | 8,455 |
| Decrease/(increase) in inventories | 1,762 | (949) |
| (Increase)/decrease in trade and other receivables | (550) | 990 |
| (Decrease)/increase in trade and other payables | (8,107) | 2,328 |
| **Cash generated from operating activities (see sub analysis below)** | 4,627 | 10,824 |
| **Cash generated from operating activities excluding exceptional costs and non cash credits** | 6,185 | 15,064 |
| Exceptional cost – excluding acquisition legal and professional costs below (note 12) | (1,285) | (1,725) |
| **Cash generated from operating activities excluding acquisition legal and professional costs** | 4,900 | 13,339 |
| Exceptional cost – acquisition legal and professional costs | (273) | (2,515) |
| **Cash generated from operating activities** | 4,627 | 10,824 |
| Tax paid | (211) | (236) |
| **Net cash flows from operating activities** | 4,416 | 10,588 |
| **Investing activities** | | |
| Purchase of plant and equipment | (393) | (438) |
| Purchase of software | (1,089) | (132) |
| Purchase price in respect of business combination | (4,906) | (47,028) |
| Net cash acquired with subsidiary undertaking | 11 | 1,595 |
| | (4,895) | (45,433) |
| Interest received | – | 3 |
| **Net cash flows from investing activities** | (6,377) | (46,000) |
| **Financing activities** | | |
| Proceeds from borrowings | 9,000 | 31,000 |
| Repayment of borrowings | (9,000) | (6,000) |
| Interest paid | (986) | (628) |
| Issue of new ordinary shares | – | 24,000 |
| Share issue costs | – | (781) |
| Issue costs of debt | (60) | (360) |
| Equity dividends paid | (4,557) | (3,679) |
| **Net cash flows from financing activities** | (5,603) | 43,552 |
| **Net increase in cash and cash equivalents** | (7,564) | 8,140 |
| Cash and cash equivalents at start of period | 10,884 | 2,784 |
| Exchange differences | (9) | (40) |
| Cash and cash equivalents at end of period | 3,311 | 10,884 |

# Consolidated statement of cash flows continued

## for the year ended 31 December 2017

The following cash and non-cash movements have occurred during the year in relation to financing activities from non current liabilities.

### Reconciliation of liabilities from financing activities

Non-current loans and borrowings (Note 22)

| | £000 |
|---|---|
| At 1 January 2017 | 30,688 |
| Cash flows | – |
| Non cash movements (Amortised debt issue costs) | 19 |
| At 31 December 2017 | 30,707 |

The notes on pages 48 to 71 form part of these consolidated financial statements.

# Notes forming part of the consolidated financial statements

for the year ended 31 December 2017

## 1 General information

Maintel Holdings Plc is a public limited company incorporated and domiciled in the UK, whose shares are publicly traded on the Alternative Investment Market (AIM). Its registered office and principal place of business is 160 Blackfriars Road, London SE1 8EZ.

## 2 Accounting policies

The principal policies adopted in the preparation of the consolidated financial statements are as follows:

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies preparing their accounts in accordance with adopted IFRSs.

### (b) Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The acquisition related costs are included in the consolidated statement of comprehensive income on an accruals basis. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

### (c) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

Revenue represents sales to customers at invoiced amounts and commissions receivable from suppliers, less value added tax.

#### Managed services and technology

Amounts invoiced in advance in respect of managed service contracts are deferred and released to the consolidated statement of comprehensive income on a straight line basis over the period covered by the invoice.

Technology revenues from the supply of hardware and software are recognised at the time the risks and rewards of ownership pass to the customer. Professional services revenues are recognised based on an estimate of stage of completion for each project at the reporting date. The estimate is derived by the application of judgement and tracked progress of work performed on each project at the reporting date relative to the total value of each project.

#### Network services

Revenues for network services are comprised of call traffic, line rentals and data services, which are recognised on an accruals basis, for services provided up to the reporting date. Amounts invoiced in advance relating to periods after the reporting date are deferred and recognised as deferred income.

#### Mobile

Connection commission received from the mobile network operators on fixed line revenues are spread over the course of the customer contract term.

Customer overspend and bonus payments are recognised monthly; these are also payable by the network operators on a monthly basis.

### (d) Operating leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Rentals receivable under operating leases are credited to the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. The aggregate cost of lease incentives offered is recognised as a reduction of the rental income over the lease term on a straight-line basis.

### (e) Employee benefits

The Group contributes to a number of defined contribution pension schemes in respect of certain of its employees, including those established under auto-enrolment legislation. The amount charged in the consolidated statement of comprehensive income represents the employer contributions payable to the schemes in respect of the financial period. The assets of the schemes are held separately from those of the Group in independently administered funds.

The cost of all short-term employee benefits is recognised during the period the employee service is rendered.

Holiday pay is expensed in the period in which it accrues.

### (f) Redundancy costs

Redundancy costs are those costs incurred from the date of communication of the restructuring decision and the at risk consultation process has been started with the relevant employee or group of employees affected.

### (g) Interest

Interest income and expense is recognised using the effective interest rate basis.

### (h) Taxation

Current tax is the expected tax payable on the taxable income for the year, together with any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits and taxable temporary differences will be available against which the asset can be utilised.

Management judgement is used in determining the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The amount of the deferred tax asset or liability is measured on an undiscounted basis and is determined using tax rates that have been enacted or substantively enacted by the date of the consolidated statement of financial position and are expected to apply when the deferred tax assets/liabilities are recovered/settled.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### (i) Dividends

Dividends unpaid at the reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Proposed but unpaid dividends that do not meet these criteria are disclosed in the notes to the consolidated financial statements.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 2 Accounting policies continued

### (j) Intangible assets

**Goodwill**

Goodwill represents the excess of the fair value of the consideration of a business combination over the acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired; the fair value of the consideration comprises the fair value of assets given. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset and carried at cost with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

**Customer relationships**

Customer relationships are stated at fair value where acquired through a business combination, less accumulated amortisation.

Customer relationships are amortised over their estimated useful lives of (i) six years to eight years in respect of managed service contracts, and (ii) seven years or eight years in respect of network services and mobile contracts.

**Product platform**

The product platform is stated at fair value where acquired through a business combination less accumulated amortisation.

The product platform is amortised over its estimated useful life of eight years.

**Brand**

Brands are stated at fair value where acquired a business combination less accumulated amortisation.

Brands are amortised over their estimated useful lives eight years in respect of the ICON brand.

**Software (Microsoft licences and Callmedia)**

Software is stated at cost less accumulated amortisation. Where these assets have been acquired through a business combination, the cost is the fair value allocated in the acquisition accounting.

Software is amortised over its estimated useful life of (i) three years in respect of the Microsoft licences, (ii) five years in respect of the Callmedia software.

### (k) Impairment of non current assets

Impairment tests on goodwill are undertaken annually on 31 December. Customer relationships and other assets are subject to impairment tests whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (being the higher of value in use and fair value less costs to sell), the asset is written down accordingly in the administrative expenses line in the consolidated statement of comprehensive income and, in respect of goodwill impairments, the impairment is never reversed.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (being the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to goodwill.

### (l) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any impairment in value. Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, other than freehold land, over their expected useful lives, at the following rates:

| | |
|---|---|
| Office and computer equipment | 25% straight-line |
| Motor vehicles | 25% straight-line |
| Leasehold improvements | over the remaining period of the lease |
| Freehold building | 2.5% straight-line |

Property, plant and equipment acquired in a business combination is initially recognised at its fair value.

### (m) Inventories

Inventories comprise (i) maintenance stock, being replacement parts held to service customers' telecommunications systems, and (ii) stock held for resale, being stock purchased for customer orders which has not been installed at the end of the financial period. Inventories are valued at the lower of cost and net realisable value.

## (n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits with an original maturity of three months or less, held for meeting short-term commitments.

## (o) Financial assets and liabilities

The Group's financial assets and liabilities mainly comprise cash, borrowings, trade and other receivables and trade and other payables.

Trade and other receivables are not interest bearing and are stated at their amortised cost as reduced by appropriate allowances for irrecoverable amounts or additional costs required to effect recovery.

Trade and other payables are not interest bearing and are stated at their amortised cost.

## (p) Borrowings

Interest bearing bank loans and overdrafts are initially recorded at the value of the amount received, net of attributable transaction costs. Interest bearing borrowings are subsequently stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest method.

## (q) Assets held for sale

Assets are classified as held for sale as a current asset from the date the Group has a clear plan to dispose of the asset and its sale is considered highly probable within a period of twelve months. Assets held for sale are stated at the lower of carrying value at the date the asset is designated as held for sale and fair value less costs of sale.

## (r) Foreign currency

The presentation currency of the Group is Sterling. All Group companies have a functional currency of Sterling (other than Maintel International Limited ("MIL") which has a functional currency of the Euro) consistent with the presentation currency of the Group's consolidated financial statements. Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions.

On consolidation, the results of MIL are translated into Sterling at rates approximating those ruling when the transactions took place. All assets and liabilities of MIL, including goodwill arising on its acquisition, are translated at the rate ruling at the reporting date. Exchange differences on retranslation of the foreign subsidiary are recognised in other comprehensive income and accumulated in a translation reserve.

## (s) Accounting standards issued

There are no new IFRSs that are effective for the first time during the financial year that have a material effect on recognition and measurement in the consolidated financial statements.

However, the Group notes IFRS15 *Revenue from Contracts with Customers and* IFRS9 *Financial instruments*, both of which are to be adopted for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group in 2018. The Company's interim accounts for the period to 30 June 2018 will be prepared in accordance with both IFRS 15 and IFRS 9.

### IFRS 15 Revenue from Contracts with Customers

The Group has completed its assessment of the impact that IFRS 15 has on the Group's revenue streams, taking into account the move from the recognition of revenue on the transfer of risks and rewards to the transfer of control. An analysis on the key changes under IFRS 15, which will be relevant to the group, include:

- Certain contracts with customers, which include both supply of technology goods and installation services, represent one performance obligation under IFRS 15 and result in revenue recognition at a point in time, which is different to the current treatment whereby the supply of goods and professional services are treated as separate sale arrangements. In relation to these contracts, the group performs a significant integration service which results in the technology goods and integration service being one performance obligation under IFRS 15. Under IAS 18, the installation was judged to be separable as it was possible for a customer to obtain equipment and kit from one party and obtain installation services from another.
- Mobile business: connection commission revenues received from mobile network operators on fixed line revenues are currently spread over the term of the customer contract. Under IFRS 15 the Group's mobile contracts with customers include a number of performance obligations. Typically, these include an obligation to provide a hardware fund to the end users. Revenue recognition under IFRS 15 for the supply of handsets and other hardware kit under these contracts will be at a point in time when the hardware goods are delivered to the customer. This is different to the current treatment of spreading the associated revenue over the course of the customer contract.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 2 Accounting policies continued

Adoption of IFRS 15 is expected to have a material impact on the Group's 2017 results, the company is currently estimating a reduction in revenue and profit before tax of £6.3m and £2.2m respectively from the amounts reported in the 2017 financial statements. In addition, opening reserves at 1 January 2017 are expected to be £1.1m lower than the amount reported in the 2017 financial statements. These amounts are based on the Company applying the retrospective method in transitioning to IFRS 15. Certain practical expedients have also been applied which include:

a) Contracts which begin and end within the same annual reporting period or which were completed contracts at 1 January 2017 have not been restated; and

b) For all contract modifications executed prior to 1 January 2017, the Group has applied hindsight and accounted for the contracts under IFRS 15 applying the terms in place as at 1 January 2017.

**IFRS 9 Financial instruments**

This IFRS will require the Group to review the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In assessing the financial impact of IFRS 9 on trade receivables, the Group has carried out a detailed review of its customer base under the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. As a result of this review it is expected that the adoption of IFRS 9 will lead to a higher level of impairment provisions being recognised against trade receivables in the future.

The impact on the Group's opening reserves at 1 January 2018 and trade receivables for these additional provisions' is expected to be a reduction of £0.2m from the amount reported in the 2017 financial statements. These amounts are based on applying the retrospective method applying an initial application date of 1 January 2018.

The Group also notes IFRS16 Leases, which takes effect and will be adopted in 2019. Details of the Group's operating lease commitments are disclosed in note 28. This IFRS will require the Group to recognise the leases on its premises as both an asset and a rental commitment in its consolidated statement of financial position. It is not practical to provide a reasonable estimate in relation to the effect of IFRS16 until a detailed review has been completed.

## 3 Accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made various estimates, assumptions and judgements, with those likely to contain the greatest degree of uncertainty being summarised below.

**Deferred tax asset relating to brought forward losses**

At 31 December 2017, the directors have had to assess the validity of the carrying value of tax losses attributable to the Datapoint UK companies that might be used against future profits, shown in **note 21**, which involves estimating the profitability for the Datapoint businesses, which are now reported within Maintel Europe Ltd. The company recognises the deferred tax asset for Datapoint tax losses on a streamed basis against forecast future taxable profits, which are expected to be generated by the former Datapoint businesses.

## 4 Segment information

### Year ended 31 December 2017

For management reporting purposes and operationally, the Group consists of three business segments: (i) telecommunications managed service and technology sales, (ii) telecommunications network services, and (iii) mobile services. Each segment applies its respective resources across inter-related revenue streams, which are reviewed by management collectively under these headings. The businesses of each segment and a further analysis of revenue are described under their respective headings in the strategic report.

The chief operating decision maker has been identified as the board, which assesses the performance of the operating segments based on revenue and gross profit.

In presenting the segment information below for 2017, the operating segments for Intrinsic Technology have been aggregated with the respective operating segments for Maintel on the basis the segments have similar economic characteristics and the segments are similar in nature of products and services provided to customers.

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | 79,386 | 46,795 | 6,898 | – | 133,079 |
| Gross profit | 23,112 | 12,396 | 3,281 | – | 38,789 |
| Other operating income | | | | | 155 |
| Total administrative expenses | | | | | (27,183) |
| Intangibles amortisation | | | | | (5,892) |
| Exceptional costs | | | | | (1,454) |
| **Operating profit** | | | | | 4,415 |
| Interest (net) | | | | | (899) |
| Profit before taxation | | | | | 3,516 |
| Taxation expense | | | | | (434) |
| **Profit after taxation** | | | | | 3,082 |

Revenue is wholly attributable to the principal activities of the Group and other than sales of £8.6m to EU countries and £1.8m to the rest of the world (2016: £8.8m to EU countries, and £1.0m to the rest of the world), arises within the United Kingdom.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £Nil (2016: £0.1m) attributable to the managed services and technology segment, £Nil (2016: £0.1m) to the network services segment and immaterial amounts to the mobile segment in each year.

In 2017 the Group had no customer (2016: None) which accounted for more than 10% of its revenue.

The board does not regularly review the aggregate assets and liabilities of its segments and accordingly an analysis of these is not provided.

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Other** | | | | | |
| Intangibles amortisation | – | – | – | (5,892) | (5,892) |
| Exceptional costs | (1,454) | – | – | – | (1,454) |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 4 Segment information continued

### Year ended 31 December 2016

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | 64,109 | 37,395 | 6,947 | (155) | 108,296 |
| Gross profit | 21,408 | 10,257 | 3,385 | (137) | 34,913 |
| Other operating income | | | | | 151 |
| Total administrative expenses | | | | | (23,064) |
| Intangibles amortisation | | | | | (4,733) |
| Exceptional costs | | | | | (4,240) |
| **Operating profit** | | | | | 3,027 |
| Interest (net) | | | | | (920) |
| Profit before taxation | | | | | 2,107 |
| Taxation | | | | | (13) |
| **Profit after taxation** | | | | | 2,094 |

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Other** | | | | | |
| Intangibles amortisation | 191 | – | – | 4,542 | 4,733 |
| Exceptional costs | 2,305 | – | 76 | 1,859 | 4,240 |

## 5 Employees

| | 2017 Number | 2016 Number |
|---|---|---|
| The average number of employees, including directors, during the year was: | | |
| Corporate and administration | 101 | 100 |
| Sales and customer service | 253 | 199 |
| Technical and engineering | 298 | 249 |
| | 652 | 548 |
| Staff costs, including directors, consist of: | **£000** | **£000** |
| Wages and salaries | 33,502 | 28,565 |
| Social security costs | 3,913 | 3,252 |
| Pension costs | 799 | 600 |
| | 38,214 | 32,417 |

The Group makes contributions to defined contribution personal pension schemes for employees and directors. The assets of the schemes are separate from those of the Group. Pension contributions totalling £138,000 (2016: £143,000) were payable to the schemes at the year-end and are included in other payables.

## 6 Directors' remuneration

The remuneration of the Company directors was as follows:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Directors' emoluments | 1,136 | 1,181 |
| Pension contributions | 30 | 27 |
| | 1,166 | 1,208 |

Included in the above is the remuneration of the highest paid director as follows:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Directors' emoluments | 309 | 266 |
| Pension contributions | 5 | 6 |
| | 314 | 272 |

The Group paid contributions into defined contribution personal pension schemes in respect of 7 directors during the year, 3 of whom were auto-enrolled at minimal contribution levels, and 1 was on both (2016: 2, 1 auto-enrolled).

Further details of director remuneration are shown in the Remuneration committee report on page 29.

## 7 Operating profit

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| This has been arrived at after charging/(crediting): | | |
| Depreciation of property, plant and equipment | 763 | 598 |
| Amortisation of intangible fixed assets | 5,892 | 4,733 |
| Operating lease rentals payable: | | |
| property | 1,101 | 982 |
| plant and machinery | 402 | 377 |
| Operating lease rentals receivable – property | (155) | (151) |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 14 | 16 |
| Fees payable to the Company's auditor for other services: | | |
| due diligence and other acquisition costs | 149 | 434 |
| audit of the Company's subsidiaries pursuant to legislation | 192 | 229 |
| audit-related assurance services | 35 | 58 |
| tax compliance services | 18 | 44 |
| Fees payable to other auditors | 29 | – |
| Foreign exchange movement | (149) | (33) |
| Loss on sale of property plant and equipment | 156 | – |

## 8 Financial income and expense

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Interest receivable on bank deposits | – | 3 |
| Interest payable on bank loans | 899 | 923 |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 9 Taxation

| | 2017 £000 | 2016 £000 |
|---|---|---|
| *UK corporation tax* | | |
| Corporation tax on profits of the period | 1,108 | 512 |
| Prior year adjustment | – | (5) |
| | 1,108 | 507 |
| Deferred tax (note 21) | (674) | (494) |
| Taxation on profit on ordinary activities | 434 | 13 |

The standard rate of corporation tax in the UK for the period was 19.25%, and therefore the Group's UK subsidiaries are taxed at that rate. Reductions in rate to 19% with effect from 1 April 2017 and 17% from 1 April 2020 were substantively enacted on 15 September 2017 and the projected effect of these reductions on the unwinding of deferred tax liabilities has been credited to the income statement at £Nil (2016: £275,000). The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Profit before tax | 3,516 | 2,107 |
| Profit at the standard rate of corporation tax in the UK of 19.25% (2016: 20%) | 677 | 421 |
| Effect of: | | |
| Expenses not deductible for tax purposes, net of reversals | 57 | 510 |
| Capital allowances less than/(in excess of) depreciation | 44 | (26) |
| Effects of change in tax rates | 6 | (120) |
| Effects of overseas tax rates | (14) | (2) |
| Prior year adjustment | – | 5 |
| Increase in deferred tax asset relating to Datapoint tax losses (note 21) | (500) | (500) |
| Decrease in deferred tax liability relating to intangible assets (note 21) | – | (275) |
| Increase in deferred tax liability relating to intangible assets | 164 | – |
| | 434 | 13 |

## 10 Dividends paid on ordinary shares

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Second interim 2015, paid 5 April 2016 – 16.5p per share | – | 1,777 |
| Interim 2016, paid 12 October 2016 – 13.4p per share | – | 1,902 |
| Final 2016, paid 18 May 2017 – 17.4p per share | 2,470 | – |
| Interim 2017, paid 5 October 2017 – 14.7p per share | 2,087 | – |
| | 4,557 | 3,679 |

The directors propose the payment of a final dividend for 2017 of 19.1p (2016: 17.4p) per ordinary share, payable on 11 May 2018 to shareholders on the register at 3 April 2018. The cost of the proposed dividend, based on the number of shares in issue as at 16 March 2018, is £2,712,000 (2016: £2,470,000).

## 11 Earnings per share

Earnings per share is calculated by dividing the profit after tax for the period by the weighted average number of shares in issue for the period, these figures being as follows:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Earnings used in basic and diluted EPS, being profit after tax | 3,082 | 2,094 |
| *Adjustments:* | | |
| Intangibles amortisation (note 14) | 5,892 | 4,733 |
| Exceptional costs (note 12) | 1,454 | 4,240 |
| Tax relating to above adjustments | (1,411) | (1,333) |
| Deferred tax charge on utilisation of Datapoint tax losses | 392 | 504 |
| Increase in deferred tax asset in respect to Datapoint tax losses | (500) | (500) |
| Deferred tax charge on utilisation of Azzurri tax losses | – | 642 |
| Deferred tax charge on Azzurri profits | 403 | 100 |
| Increase/(decrease) in deferred tax liability of intangible assets | 164 | (275) |
| Adjusted earnings used in adjusted EPS | 9,476 | 10,205 |

Datapoint has brought forward historic tax losses, which the Group will benefit from in respect of its 2017 taxable profits. On acquisition a deferred tax asset was recognised in respect of a proportion of its tax losses, and a deferred tax charge of £392,000 was calculated on a streamed basis and was recognised in the income statement for 2017 (2016: £504,000). As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above. An increase of £500,000 in the deferred tax asset relating to Datapoint useable losses was reflected in the income statement and similarly adjusted for above.

Azzurri has brought forward capital allowances and on acquisition, a deferred tax asset was acquired in respect of its capital allowances. A deferred tax charge of £403,000 has been recognised in the income statement in respect of the period's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

An increase of £164,000 in the deferred tax liability relating to intangible assets was reflected in the income statement in 2017 and similarly adjusted for above.

| | 2017<br>Number<br>(000s) | 2016<br>Number<br>(000s) |
|---|---|---|
| Weighted average number of ordinary shares of 1p each | 14,197 | 13,092 |
| Potentially dilutive shares | 275 | 204 |
| | 14,472 | 13,296 |
| *Earnings per share* | | |
| Basic | 21.7p | 16.0p |
| Diluted | 21.3p | 15.8p |
| Adjusted – basic but after the adjustments in the table above | 66.7p | 78.0p |
| Adjusted – diluted after the adjustments in the table above | 65.5p | 76.8p |

The adjustments above have been made in order to provide a clearer picture of the trading performance of the Group.

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of potentially dilutive ordinary share, being those share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the period.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 12 Exceptional costs

Most of the exceptional costs incurred in the year were related to the acquisition and integration of the Intrinsic business and the reorganisation of the Group's operational structure, covering associated legal and professional fees, redundancy costs, integration project costs and corporate restructuring fees. These and the other costs analysed below have been shown as exceptional costs in the income statement as they are not normal operating expenses:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Property-related legal and professional costs | 83 | 13 |
| Acquisition and restructuring related redundancy costs | 1,138 | 1,433 |
| Cost of rebrand | – | 19 |
| Legal and professional fees relating to Azzurri integration | – | 260 |
| Legal and professional fees relating to the acquisition of Azzurri | – | 2,515 |
| Legal and professional fees relating to Intrinsic integration | 60 | – |
| Legal and professional fees relating to the acquisition of Intrinsic | 273 | – |
| Impairment of freehold property | 17 | – |
| Net effect of release of provisions relating to Azzurri | (121) | – |
| Other legal and professional costs | 4 | – |
| | 1,454 | 4,240 |

## 13 Business combinations

On 1 August 2017, the Company acquired the entire share capital of Intrinsic Technology Limited at the following provisional fair value amounts:

| | £000 |
|---|---|
| *Purchase consideration* | |
| Cash | 4,906 |
| *Assets and liabilities acquired* | |
| Tangible fixed assets | 220 |
| Inventories | 130 |
| Trade and other receivables | 7,317 |
| Cash | 11 |
| Trade and other payables | (11,005) |
| | (3,327) |
| *Intangible assets* | |
| Customer relationships | 5,600 |
| Deferred tax asset | 160 |
| Deferred tax liability on intangible assets | (1,073) |
| Net assets and liabilities acquired | 1,360 |
| Goodwill | 3,546 |

Cash flows arising from the acquisition were as follows:

| | |
|---|---|
| Purchase consideration settled in cash | 4,906 |
| Direct acquisition costs (note 12) | (273) |
| Cash balances acquired | 11 |
| | 4,644 |

Maintel acquired Intrinsic Technology Ltd ("Intrinsic") on 1 August 2017 on a cash-free, debt-free basis for a consideration of £5.25m, reduced to £4.9m through price adjustment mechanisms, payable in cash.

Intrinsic, as one of the UK's leading Cisco Gold Partners significantly enhances Maintel's already strong capability in LAN networking and the fast growing network security sector. Its acquisition will complement and extend further the Group's existing offerings of telecommunications and data services and enable further cross selling to and from other Group operations, as further described in the strategic report. The goodwill is attributable to the workforce of the acquired business, cross selling opportunities and cost synergies that are expected to be achieved from sharing the expertise and resource of Maintel with that of Intrinsic and vice versa .

The acquisition was funded by an extension to, and draw-down under, the Company's existing Revolving Credit Facility with the Royal Bank of Scotland Plc (the "RCF"). The RCF, originally secured in April 2016 has been increased by £6 million to £42 million.

The customer relationships are estimated to have a useful life of eight years based on the directors' experience of comparable intangibles, and are therefore amortised over this period.

A deferred tax liability of £1.1m has been recognised above which is being credited to the income statement pro rata to the amortisation of the intangibles. The Intrinsic related amortisation charge in 2017 is £0.3m.

Since its acquisition, Intrinsic has contributed the following to the results of the Group before management charges of £0.1m:

| | £000 |
|---|---|
| Revenue | 8,991 |
| Loss before tax | (21) |

Intrinsic's revenue for the period 1 January 2017 to 31 December 2017 was £25.1m and its loss before tax, exceptional items and interest costs was (£0.2m)

The Group incurred £0.3m of third party costs related to this acquisition. These costs are included in administrative expenses in the consolidated statement of comprehensive income.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 13 Business combinations continued

On 4 May 2016 the Company acquired the entire share capital of Azzurri at the following provisional fair value amounts:

| | 2016 £000 |
|---|---|
| *Purchase consideration* | |
| Cash | 47,028 |
| *Assets and liabilities acquired* | |
| Tangible fixed assets | 2,778 |
| Inventories | 2,635 |
| Trade and other receivables | 19,321 |
| Cash | 1,595 |
| Trade and other payables | (27,242) |
| | (913) |
| *Intangible assets* | |
| Customer relationships | 16,030 |
| Software | 2,550 |
| ICON brand | 3,278 |
| Azzurri brand | 202 |
| Product platform | 1,299 |
| Deferred tax asset | 2,639 |
| Deferred tax liability on intangible assets | (4,319) |
| Net assets and liabilities acquired | 20,766 |
| Goodwill | 26,262 |

Cash flows arising from the acquisition were as follows:

| | |
|---|---|
| Purchase consideration settled in cash | (47,028) |
| Direct acquisition costs (note 12) | (2,515) |
| Cash balances acquired | 1,595 |
| | (47,948) |

Azzurri was acquired to complement and extend the Group's existing offerings of telecommunications and data services and enable further cross-selling to and from other Group operations, as further described in the strategic report. The goodwill is attributable to the workforce of the acquired business, cross-selling opportunities and cost synergies that are expected to be achieved from sharing the expertise and resource of Maintel with that of Azzurri and vice versa.

The acquisition of Azzurri Communications Limited was effected by the acquisition of its parent company, Warden Holdco Limited for a purchase consideration of £47.0m. Warden Holdco Limited is the ultimate holding company of Azzurri Communications Limited and its subsidiaries. Warden Midco Limited, Azzurri Holdings Limited and Azzurri Capital Limited are intermediate holding companies of Azzurri Communications Limited and its subsidiaries.

The business was acquired for a cash consideration of £1, together with procurement of its senior debt facilities, loan notes, and acquisition related fees of £20.5m, £24.0m, and £2.5m respectively. These acquired liabilities were settled immediately following acquisition, and therefore formed part of the aggregate purchase consideration of £47.0m.

The purchase consideration quoted in the admission document for the Azzurri acquisition was £48.5m, but this was reduced to £47.0m through price adjustment mechanisms.

The customer relationships, software, brand and product platforms are estimated to have a useful life of one to eight years based on the directors' experience of comparable intangibles and are therefore amortised over those periods and are subject to an annual impairment review.

A deferred tax liability of £4.3m has been recognised above which is being credited to the income statement pro rata to the amortisation of the intangibles. The Azzurri related amortisation charge in 2016 is £2.5m.

The trade and other receivables are stated net of impairment allowances of £0.8m, which were the company's best estimate of cash flows not collected.

In 2016, Azzurri contributed the following to the results of the Group before management charges of £1.1m:

| | 2016 £000 |
|---|---|
| Revenue | 57,783 |
| Profit before tax | 2,506 |

Azzurri's revenue for the period 1 January 2016 to 31 December 2016 was £86.0m and before management charges, its profit before tax, including amortisation, exceptional and pre acquisition debt costs was £0.4m.

The Group incurred £2.5m of third party costs related to this acquisition. These costs are included in administrative expenses in the consolidated statement of comprehensive income.

## 14 Intangible assets

| | Goodwill £000 | Customer relationships £000 | Brands £000 | Product platform £000 | Software £000 | Total £000 |
|---|---|---|---|---|---|---|
| *Cost* | | | | | | |
| At 1 January 2016 | 10,172 | 15,252 | – | – | – | 25,424 |
| Acquired in the year | 26,262 | 16,030 | 3,480 | 1,299 | 2,550 | 49,621 |
| Additions | – | – | – | – | 132 | 132 |
| At 31 December 2016 | 36,434 | 31,282 | 3,480 | 1,299 | 2,682 | 75,177 |
| Acquired in the year | 3,546 | 5,600 | – | – | – | 9,146 |
| Additions | – | – | – | – | 1,089 | 1,089 |
| At 31 December 2017 | 39,980 | 36,882 | 3,480 | 1,299 | 3,771 | 85,412 |
| *Amortisation and Impairment* | | | | | | |
| At 1 January 2016 | 317 | 6,975 | – | – | – | 7,292 |
| Amortisation in the year | – | 3,631 | 408 | 108 | 586 | 4,733 |
| At 31 December 2016 | 317 | 10,606 | 408 | 108 | 586 | 12,025 |
| Amortisation in the year | – | 4,439 | 477 | 162 | 814 | 5,892 |
| At 31 December 2017 | 317 | 15,045 | 885 | 270 | 1,400 | 17,917 |
| *Net book value* | | | | | | |
| At 31 December 2017 | 39,663 | 21,837 | 2,595 | 1,029 | 2,371 | 67,495 |
| At 31 December 2016 | 36,117 | 20,676 | 3,072 | 1,191 | 2,096 | 63,152 |

Amortisation charges for the year have been charged through administrative expenses in the statement of comprehensive income.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 14 Intangible assets continued

### Goodwill

The carrying value of goodwill is allocated to the cash generating units as follows:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Network services division | 21,134 | 21,134 |
| Managed service and technology division | 15,222 | 11,676 |
| Mobile division | 3,307 | 3,307 |
| | 39,663 | 36,117 |

For the purposes of the impairment review of goodwill, the net present value of the projected future cash flows of the relevant cash generating unit are compared with the carrying value of the net assets for that unit; where the recoverable amount of the cash generating unit is less than the carrying amount of the net assets, an impairment loss is recognised. Projected operating margins for this purpose are based on a five-year horizon which use the approved budget amounts for year 1 and 3% rate of growth thereafter, and a pre-tax discount rate of 14% is applied to the resultant projected cash flows. For the comparative period, the same assumptions were used. The Group's impairment assessment at 31 December 2017 indicates that there is significant headroom for each unit.

The discount rate is based on conventional capital asset pricing model inputs and varies to reflect the relative risk profiles of the relevant cash generating units. Sensitivity analysis using reasonable variations in the assumptions shows no indication of impairment.

Fully amortised intangibles with a combined cost of £3.1m (2016: £2.9m) relating to the District Holdings Limited, Callmaster Limited and Redstone acquisitions are included within intangibles and are still used within the business.

## 15 Subsidiaries

The Company owns investments in several subsidiaries including several which did not trade during the year. The following were the principal subsidiary undertakings at the end of the year:

Maintel Europe Limited
Maintel International Limited
Intrinsic Technology Limited (acquired on 1 August 2018)

Both Maintel Europe Limited and Intrinsic Technology Limited provide goods and services in the managed services and technology and network services sectors. Maintel Europe Limited is the sole provider of the Group's mobile services. Maintel International Limited provides goods and services in the managed services and technology sector.

The acquisition of Azzurri Communications Limited was effected by the acquisition of its parent company, Warden Holdco Limited on 4 May 2016. Warden Holdco Limited is the ultimate holding company of Azzurri Communications Limited and its subsidiaries. Warden Midco Limited, Azzurri Holdings Limited and Azzurri Capital Limited are intermediate holding companies of Azzurri Communications Limited and its subsidiaries. Azzurri Communications Limited was hived up into Maintel Europe Limited on 1 January 2017.All these companies were active in 2017 but were not trading.

In addition the following subsidiaries of the Company were dormant as at 31 December 2017:

Maintel Finance Limited
Maintel Network Solutions Limited
Unified Professional Services Limited
Proximity Communications Limited (hived up into Maintel Europe Limited on 1 January 2016)
Datapoint Customer Solutions Limited (hived up into Maintel Europe Limited on 1 October 2016)
Maintel Mobile Limited (hived up into Azzurri Communications Limited on 1 October 2016)
District Holdings Limited
Unified Group Limited
Unified Networks Services Limited
Maintel Voice and Data Limited (hived up into Maintel Europe Limited on 1 October 2016)
Datapoint Global Services Limited (hived up into Maintel Europe Limited on 1 October 2016)

The following subsidiaries of the Company were dormant and were in the process of being dissolved as at 31 December 2017:

Unified Professional Services Limited (dissolved on 6 February 2018)

Unified Network Services Limited (dissolved 20 February 2018)

Unified Group Limited (dissolved on 6 February 2018)

Proximity Communications Limited

Each subsidiary company is wholly owned and, other than Maintel International Limited, is incorporated in England and Wales. Maintel International Limited is incorporated in the Republic of Ireland.

Each subsidiary, other than Maintel International Limited, has the same registered address as the parent. The registered address of Maintel International Limited is 9 Clanwilliam Square, Grand Canal Quay, Dublin 2, Ireland.

## 16 Property, plant and equipment

| | Freehold building £000 | Leasehold Improvements £000 | Office and computer equipment £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|---|
| *Cost or valuation* | | | | | |
| At 1 January 2016 | – | 414 | 1,469 | 47 | 1,930 |
| Additions | – | 18 | 420 | – | 438 |
| On acquisition of Azzurri | 1,768 | 1,128 | 5,562 | – | 8,458 |
| Exchange differences | – | 2 | – | – | 2 |
| At 31 December 2016 | 1,768 | 1,562 | 7,451 | 47 | 10,828 |
| Transfer | (36) | – | (21) | – | (57) |
| Additions | – | 6 | 387 | – | 393 |
| On acquisition of Intrinsic | – | 229 | 1,847 | – | 2,076 |
| Disposals | – | – | (156) | – | (156) |
| Transfer to assets held for sale | (1,732) | – | – | – | (1,732) |
| Exchange differences | – | 2 | – | – | 2 |
| At 31 December 2017 | – | 1,799 | 9,508 | 47 | 11,354 |
| *Depreciation* | | | | | |
| At 1 January 2016 | – | 72 | 1,140 | 46 | 1,257 |
| On acquisition of Azzurri | 147 | 825 | 4,708 | – | 5,680 |
| Provided in year | 17 | 119 | 461 | 1 | 598 |
| At 31 December 2016 | 164 | 1,016 | 6,309 | 47 | 7,535 |
| Transfer | 26 | – | (83) | – | (57) |
| On acquisition of Intrinsic | – | 199 | 1,657 | – | 1,856 |
| Provided in year | 24 | 54 | 685 | – | 763 |
| Transfer to assets held for sale | (214) | – | – | – | (214) |
| At 31 December 2017 | – | 1,269 | 8,568 | 47 | 9,883 |
| *Net book value* | | | | | |
| At 31 December 2017 | – | 530 | 940 | – | 1,471 |
| At 31 December 2016 | 1,604 | 547 | 1,142 | – | 3,293 |

Following a decision to market the freehold property for sale in December 2017, this asset was reclassified from tangible fixed assets to assets held for sale within current assets, (see note 17).

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 17 Assets Held for Sale

On 1 December 2017, the board announced its intention to market the group's freehold property in Burnley for sale. The sale was concluded on 23 February 2018 and has accordingly been disclosed as a post-balance sheet event (note 30).

The criteria required to recognise a non-current asset held for sale, as disclosed in Note 2, were all met on the announcement date above.

| | 2017<br>£000 |
|---|---|
| Transfer from Property, Plant and Equipment on 1 December 2017 | 1,518 |
| Fair value adjustment – impairment charge through profit and loss | (18) |
| Closing value at 31/12/2017 – at fair value | 1,500 |

The fair value was obtained from an independent property valuation firm. Standard property valuation techniques were used, which include consideration of the property location and size, current property market conditions, and comparable property sales. Management considers this to be a level 3 fair value assessment in terms of the *IFRS 13 Fair Value Measurement* hierarchy.

## 18 Inventories

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Maintenance stock | 1,746 | 1,970 |
| Stock held for resale | 1,505 | 2,912 |
| | 3,251 | 4,882 |
| Cost of inventories recognised as an expense | 21,491 | 17,274 |

Provisions of £460,000 were made against the maintenance stock in 2017 (2016: £542,000).

## 19 Trade and other receivables

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Trade receivables | 19,018 | 17,383 |
| Other receivables | 1,277 | 388 |
| Prepayments and accrued income | 16,962 | 11,600 |
| | 37,257 | 29,371 |

All amounts shown above fall due for payment within one year.

## 20 Trade and other payables

| **Current trade and other payables** | 2017<br>£000 | Restated<br>2016<br>£000 |
|---|---|---|
| Trade payables | 13,491 | 9,909 |
| Other tax and social security | 3,505 | 4,658 |
| Accruals | 6,662 | 8,463 |
| Other payables | 3,417 | 3,616 |
| Provision for dilapidations and deferred rent incentive | 283 | 483 |
| Deferred managed service income | 19,234 | 16,012 |
| Other deferred income | 4,775 | 6,012 |
| | 51,367 | 49,153 |

Deferred managed service income relates to the unearned element of managed service revenue that has been invoiced but not yet recognised in the consolidated statement of comprehensive income. Other deferred income relates to other amounts invoiced but not yet recognised in the consolidated statement of comprehensive income.

| Non current other payables | 2017 £000 | Restated 2016 £000 |
|---|---|---|
| Provision for dilapidations and deferred rent incentive | 833 | 789 |
| Intangible licences payables | 561 | – |
| Advanced mobile commissions | 68 | 154 |
| | 1,462 | 943 |

During the current year the comparatives for the provision for dilapidations, deferred rent incentive and advanced mobile commissions payable were restated to show the correct proportion of the liability between current and non current. The effect of the changes were to decrease current liabilities by £943,000 for 2016 and to increase non current other payables by £943,000 for 2016.

## 21 Deferred taxation

| | Property, plant and equipment £000 | Intangible assets £000 | Tax losses £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|
| Net liability at 1 January 2016 | 89 | 1,704 | (953) | (6) | 834 |
| Liability established against intangible assets acquired during the year | – | 4,319 | – | – | 4,319 |
| Asset acquired with Azzurri | (1,997) | – | (642) | – | (2,639) |
| Charge/(credit) to consolidated statement of comprehensive income | 85 | (948) | 1,146 | (2) | 281 |
| Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses | – | – | (500) | – | (500) |
| Credit to consolidated statement of comprehensive income in respect of revaluation of liability against intangible assets | – | (275) | – | – | (275) |
| Net liability at 31 December 2016 | (1,823) | 4,800 | (949) | (8) | 2,020 |
| Liability established against intangible assets acquired during the year | – | 1,073 | – | – | 1,073 |
| Asset established against fixed assets acquired in the year | (160) | – | – | – | (160) |
| Charge/(credit) to consolidated statement of comprehensive income | 403 | (968) | 392 | – | (173) |
| Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses | – | – | (500) | – | (500) |
| Net liability at 31 December 2017 | (1,580) | 4,905 | (1,057) | (8) | 2,260 |

The deferred tax liability represents a liability established under IFRS on the recognition of an intangible asset in relation to the Maintel Mobile, Datapoint, Proximity, Azzurri and Intrinsic acquisitions.

The deferred tax asset relates to (a) the anticipated use in the future of tax losses within the Datapoint companies which were acquired in 2013, based on estimates of those companies' future profitability and relevant tax rates, and (b) the amount of the tax value of capital allowances claimed below depreciation provided in the accounts at the reporting date, and is calculated using the tax rates at which the liabilities are expected to reverse.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 21 Deferred taxation continued

The tax losses used to date for Datapoint are in excess of those envisaged at the time of acquisition, and the directors have therefore increased the deferred tax asset by £0.5m in the year to reflect their expectation that more tax losses will be used in the future. A change in tax rates in the future would increase or decrease the value of this asset.

The asset relating to the use of tax losses is based on the directors' judgement of a range of factors influencing their anticipated use. A further undiscounted deferred tax asset of £0.8m (2016: £1.2m) relating to tax losses has not been recognised because there is insufficient evidence that the asset will be recoverable; should the Datapoint business generate higher profits than the anticipated future profits and/or an increase in corporate tax rates occur, these would increase use of these unrecognised losses.

### Changes in tax rates and factors affecting the future tax charge

As described in note 9, the corporation tax rate reduced from 20% to 19% with effect from 1 April 2017 and will reduce to 17% from 1 April 2020. The deferred tax liability balance at 31 December 2017 has been calculated on the basis that the associated assets and liabilities will unwind at the rate prevailing at the time of the amortisation charge. Based on their projected rate of unwinding and applying the reduced future rates would result in a decreased deferred tax charge in the consolidated statement of comprehensive income for the year, and an adjustment of £Nil (2016: £275,000) to revalue the liability was credited to the income statement.

## 22 Borrowings

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Non-current bank loan – secured | 30,707 | 30,688 |
| Current bank loan – secured | – | – |
| | 30,707 | 30,688 |

On 8 April 2016, the Group entered into new facilities with the Royal Bank of Scotland Plc to support the acquisition of Azzurri. These consisted of a revolving credit facility totalling £36.0m (the "RCF") in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20.0m in uncommitted accordion facilities).

On 1 August 2017, the acquisition of the entire share capital of Intrinsic Technology Limited was completed for a consideration of £4.9m on a cash-free, debt-free basis. The acquisition was funded by an extension to, and drawdown under, the Company's existing RCF with the Royal Bank of Scotland Plc. As a result, the RCF has been increased by £6.0m to £42.0m.

Under the terms of the facility agreement, the committed funds reduce to £31.0m on the three year anniversary, and to £26.0m on the four year anniversary from the date of signing.

The non current bank loan above is stated net of unamortised issue costs of debt of £0.3m (31 December 2016: £0.3m).

The facilities are secured by a fixed and floating charge over the assets of the Company and its subsidiaries. Interest is payable on amounts drawn on the revolving credit facility and overdraft facility at a covenant-depending tiered rate of 1.70 % to 2.85% per annum over LIBOR, with a reduced rate payable on undrawn facility.

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis. The company was in compliance with its covenants ratios tests for 31 December 2017.

The directors consider that there is no material difference between the book value and fair value of the loan.

## 23 Financial instruments

The Group's financial assets and liabilities mainly comprise cash, borrowings, trade and other receivables and trade and other payables.

| | Loans and receivables | |
|---|---|---|
| | **2017 £000** | **2016 £000** |
| *Current financial assets* | | |
| Trade receivables | 19,018 | 17,383 |
| Cash and cash equivalents | 3,311 | 10,884 |
| Other receivables | 1,277 | 388 |
| | 23,606 | 28,655 |

| | Financial liabilities measured at amortised cost | |
|---|---|---|
| | **2017 £000** | **2016 £000** |
| *Non current financial liabilities* | | |
| Other payables | 629 | 154 |
| Secured bank loan | 30,707 | 30,842 |
| | 31,336 | 30,966 |
| *Current financial liabilities* | | |
| Trade payables | 13,491 | 9,909 |
| Other payables | 3,417 | 3,616 |
| Accruals | 6,662 | 8,463 |
| | 23,570 | 21,988 |

The maximum credit risk for each of the above is the carrying value stated above. The main risks arising from the Group's operations are credit risk, currency risk and interest rate risk, however other risks are also considered below.

### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as deemed necessary based on, inter alia, the nature of the prospect and size of order. The Group does not require collateral in respect of financial assets.

At the reporting date, the largest exposure was represented by the carrying value of trade and other receivables, against which £337,000 is provided at 31 December 2017 (2016: £416,000). The provision represents an estimate of potential bad debt in respect of the year-end trade receivables, a review having been undertaken of each such year-end receivable. The largest individual receivable included in trade and other receivables at 31 December 2017 owed the Group £1.0m including VAT (2016: £3.1m). The Group's customers are spread across a broad range of sectors and consequently it is not otherwise exposed to significant concentrations of credit risk on its trade receivables.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 23 Financial instruments continued

The movement on the provision is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Provision at start of year | 416 | 157 |
| Acquired provision of Azzurri | – | 766 |
| Acquired provision of Intrinsic | 70 | – |
| Provision used | (66) | (442) |
| Provision reversed | (83) | (65) |
| Provision at end of year | 337 | 416 |

A debt is considered to be bad when it is deemed irrecoverable, for example when the debtor goes into liquidation, or when a credit or partial credit is issued to the customer for goodwill or commercial reasons.

The Group had past due trade receivables not requiring impairment as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Up to 30 days overdue | 2,947 | 2,258 |
| 31-60 days overdue | 787 | 148 |
| More than 60 days overdue | 139 | 15 |
| | 3,873 | 2,421 |

Cash and cash equivalents at 2017 year-end are represented by cash and short term deposits, primarily with Royal Bank of Scotland Plc and HSBC Bank Plc. The equivalent at 2016 year-end was only with Royal Bank of Scotland Plc.

### Foreign currency risk

The functional currency of all Group companies is Sterling apart from Maintel International Limited, which is registered in and operates from the Republic of Ireland and whose functional currency is the Euro. The consolidation of the results of that company is therefore affected by movements in the Euro/Sterling exchange rate. In addition, some Group companies transact with certain customers and suppliers in Euros or dollars, and those transactions are affected by exchange rate movements during the year but are not deemed material in a Group context.

### Interest rate risk

The Group had borrowings of £31.0m at 31 December 2017 (2016: £31.0m), together with a £5.0m overdraft facility (2016: £5.0m). The interest rate charged is related to LIBOR and bank rate respectively and will therefore change as those rates change. If interest rates had been 0.5% higher/lower during 2017, and all other variables were held constant, the Group's profit for the year would have been £190,000 (2016: £139,000) higher/lower due to the variable interest element on the loan.

The Group expects to be in a net borrowing position in the immediate future, and received £ Nil interest during the year (2016: £3,000).

### Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its financial obligations as they fall due. This risk is managed by balancing the Group's cash balances, banking facilities and reserve borrowing facilities in the light of projected operational and strategic requirements.

The following table details the contractual maturity of financial liabilities based on the dates the liabilities are due to be settled:

Financial liabilities:

| | 0 to 6 months £000 | 6 to 12 months £000 | 2 to 5 Years £000 | Total £000 |
|---|---|---|---|---|
| Trade payables | 13,491 | – | – | 13,491 |
| Other payables | 3,180 | 237 | 629 | 4,046 |
| Accruals | 6,522 | 140 | – | 6,662 |
| Borrowings (including future interest) | 520 | 520 | 32,379 | 33,419 |
| At 31 December 2017 | 23,713 | 897 | 33,008 | 57,618 |

| | 0 to 6 months £000 | 6 to 12 months £000 | 2 to 5 Years £000 | Total £000 |
|---|---|---|---|---|
| Trade payables | 9,909 | – | – | 9,909 |
| Other payables | 3,336 | 280 | 154 | 3,770 |
| Accruals | 8,259 | 204 | – | 8,463 |
| Borrowings (including future interest) | 454 | 445 | 33,400 | 34,299 |
| At 31 December 2016 | 21,958 | 929 | 33,554 | 56,441 |

### Market risk

As noted above, the interest payable on borrowings is dependent on the prevailing rates of interest from time to time.

### Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns to shareholders. Capital comprises all components of equity-share capital, capital redemption reserve, share premium, translation reserve and retained earnings. Typically returns to shareholders will be funded from retained profits, however in order to take advantage of the opportunities available to it from time to time, the Group will consider the appropriateness of issuing shares, repurchasing shares, amending its dividend policy and borrowing, as is deemed appropriate in the light of such opportunities and changing economic circumstances.

## 24 Share capital

| | Allotted, called up and fully paid | | | |
|---|---|---|---|---|
| | 2017 Number | 2016 Number | 2017 £000 | 2016 £000 |
| Ordinary shares of 1p each | 14,197,059 | 14,197,059 | 142 | 142 |

The Company adopted new Articles on 27 April 2016, which dispensed with the need for the Company to have an authorised share capital.

No shares were issued in the year (2016: 3,428,572). No shares were repurchased during the year (2016: Nil).

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2017

## 25 Reserves

Share premium, translation reserve, and retained earnings represent balances conventionally attributed to those descriptions.

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled by the Company and is undistributable in normal circumstances.

The Group having no regulatory capital or similar requirements, its primary capital management focus is on maximising earnings per share and therefore shareholder return.

The directors propose the payment of a final dividend in respect of 2017 of 19.1p per share; this dividend is not provided for in these financial statements.

## 26 Share Incentive Plan

The Company established the Maintel Holdings Plc Share Incentive Plan (SIP) in 2006, which was updated in 2016. The SIP is open to all employees and executive directors with at least six months' continuous service with a Group company, and allows them to subscribe for existing shares in the Company out of their gross salary. The shares are bought by the SIP on the open market. The employees and directors own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for five years to benefit from the full tax benefits of the plan.

## 27 Share based payments

On 18 May 2009 the directors of the Company approved the adoption of the Maintel Holdings Plc 2009 Option Plan and on 20 August 2015 they approved the Maintel 2015 long-term Incentive Plan.

The Remuneration committee's report on page 29 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 2.7% of the current issued share capital. The number of shares under option and the vesting and exercise prices may be adjusted at the discretion of the remuneration committee in the event of a variation in the issued share capital of the Company.

## 28 Operating leases

As at 31 December, the Group had future minimum rentals payable under non-cancellable operating leases as set out below:

| | 2017 Land and buildings £000 | 2017 Other £000 | 2016 Land and buildings £000 | 2016 Other £000 |
|---|---|---|---|---|
| The total future minimum lease payments are due as follow: | | | | |
| Not later than one year | 1,110 | 222 | 1,194 | 253 |
| Later than one year and not later than five years | 3,297 | 234 | 3,326 | 68 |
| Later than five years | 1,479 | – | 2,071 | – |
| | 5,886 | 456 | 6,591 | 321 |

The commitment relating to land and buildings is in respect of the Group's London, Dublin, Weybridge, Aldridge, Haydock and Fareham offices and Haydock warehouse facility. The remaining commitment relates to contract hired motor vehicles (which are typically replaced on a 3 year rolling cycle), office equipment, datacentre space rental, licencing of billing software and office supplies.

Part of the London premises has been sublet, with future minimum rentals receivable under non-cancellable operating leases as set out below:

| | 2017 Land and buildings £000 | 2016 Land and buildings £000 |
|---|---|---|
| The total future minimum lease payments are due as follow: | | |
| Not later than one year | 155 | 145 |
| Later than one year and not later than five years | – | 155 |
| | 155 | 300 |

## 29 Related party transactions

### Transactions with key management personnel

The Group has a related party relationship with its directors and executive officers. The remuneration of the individual directors is disclosed in the Remuneration committee report. The remuneration of the directors and other key members of management during the year was as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Short term employment benefits | 1,787 | 1,679 |
| Contributions to defined contribution pension schemes | 50 | 37 |
| | 1,837 | 1,716 |

### Other transactions

The Group did not trade in the year with E Buxton or K Stevens (2016: less than £1,200 in aggregate in each case). The Group traded in the year with A J McCaffery, transactions in 2017 and 2016 amount in aggregate to less than £1,200.

In 2017, the Company paid fees of £7,000 to Hopton Hill Limited, a company of which N J Taylor is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Intrinsic (2016: acquisition of Azzurri; £61,000). In 2017, the Group provided telecommunications services to Focus 4 U Limited and to Zinc Media Group Plc, companies of which N J Taylor is a director, amounting to £9,000 in both cases. (2016: £Nil).

The Company paid fees of £4,000 to Anchusa Consulting Limited, a company of which A P Nabavi is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Intrinsic (2016: acquisition of Azzurri ; £57,000).

## 30 Post balance sheet events

On 1 January 2018, as part of the integration of Intrinsic Technology Limited, its business and assets were hived up into Maintel Europe Limited.

On 23 February 2018, the sale of the freehold property in Burnley was completed for £1.5m.

# Company balance sheet

## at 31 December 2017 – prepared under FRS101

| | Note | 2017 £000 | 2017 £000 | 2016 £000 | 2016 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investment in subsidiaries | 4 | | 54,466 | | 49,560 |
| **Current assets** | | | | | |
| Debtors | 5 | 9,690 | | 10,298 | |
| Cash at bank and in hand | | 359 | | 1,499 | |
| | | 10,049 | | 11,797 | |
| **Creditors: amounts falling due within one year** | | | | | |
| Creditors | 6 | 1,222 | | 630 | |
| Borrowings | 7 | – | | – | |
| **Net current assets** | | | 8,827 | | 11,167 |
| **Creditors: amounts falling due after one year** | | | | | |
| Borrowings | 7 | | 30,707 | | 30,688 |
| **Total assets less current liabilities** | | | 32,586 | | 30,039 |
| **Capital and reserves** | | | | | |
| Called up share capital | 8 | | 142 | | 142 |
| Share premium | | | 24,354 | | 24,354 |
| Capital redemption reserve | | | 31 | | 31 |
| Profit and loss account | | | 8,059 | | 5,512 |
| **Shareholders' funds** | | | 32,586 | | 30,039 |

The Company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit for the year of the Company, after tax and before dividends paid, was £6.8m (2016: £0.7m). The auditors' remuneration for audit services to the Company in the year was £14,000 (2016: £16,000).

The Company financial statements were approved and authorised for issue by the board on 16 March 2018 and were signed on its behalf by:

**M Townsend**
**Director**

The notes on pages 74 to 78 form part of these financial statements.

# Reconciliation of movement in shareholders' funds

## for the year ended 31 December 2017 – prepared under FRS101

| | Note | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | | 108 | 1,169 | 31 | 8,382 | 9,690 |
| Profit and total comprehensive income for year | | – | – | – | 712 | 712 |
| Dividends paid | | – | – | – | (3,679) | (3,679) |
| Issue of new ordinary shares | | 34 | 23,966 | – | – | 24,000 |
| Share issue costs | | – | (781) | – | – | (781) |
| Grant of share options | | – | – | – | 97 | 97 |
| At 31 December 2016 | | 142 | 24,354 | 31 | 5,512 | 30,039 |
| Profit and total comprehensive income for year | | – | – | – | 6,808 | 6,808 |
| Dividends paid | 3 | – | – | – | (4,557) | (4,557) |
| Grant of share options | | – | – | – | 296 | 296 |
| At 31 December 2017 | | 142 | 24,354 | 31 | 8,059 | 32,586 |

The notes on pages 74 to 78 form part of these financial statements.

# Notes forming part of the Company financial statements

at 31 December 2017

## 1 Accounting policies

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* with effect from 1 January 2014.

The principal accounting policies are summarised below; they have been applied consistently throughout the year and the preceding year.

### (a) Basis of preparation

The financial statements of the Company are presented as required by the Companies Act 2006.

### (b) Investments

Investments in subsidiary undertakings are stated at cost unless, in the opinion of the directors, there has been impairment to their value, in which case they are written down to their recoverable amount.

### (c) Taxation

Current tax is the expected tax payable on the taxable income for the year, together with any adjustments to tax payable in respect of previous years.

### (d) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Proposed but unpaid dividends that do not meet these criteria are disclosed in the notes to the accounts.

### (e) Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of disclosure exemptions conferred by FRS101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the Group headed by Maintel Holdings Plc.

In addition, and in accordance with FRS101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Maintel Holdings Plc. These financial statements do not include certain disclosures in respect of:

- share based payments;
- impairment of assets.

### (f) Judgements and key areas of estimation uncertainty

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The principal use of estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relates to the potential impairment of the carrying value of investments.

The Company assesses at each reporting date whether there is an indication that its investments may be impaired. In undertaking such an impairment review, estimates are required in determining an asset's recoverable amount; those used are shown in note 14 of the consolidated accounts. These estimates include the asset's future cash flows and an appropriate discount to reflect the time value of money. The range of estimates reflects the relative risk profiles of the relevant cash generating units.

## 2 Employees

| Staff costs, including directors, consist of: | 2017 £000 | 2016 £000 |
|---|---|---|
| Wages and salaries | 1,269 | 1,181 |
| Social security costs | 162 | 152 |
| Pension costs | 34 | 27 |
| | 1,465 | 1,360 |

| | 2017 Number | 2016 Number |
|---|---|---|
| The average number of employees, including directors, during the year was: | 9 | 9 |

## 3 Dividends paid on ordinary shares

Details of dividends paid and payable are shown in note 10 of the consolidated financial statements.

# Notes forming part of the Company financial statements continued

at 31 December 2017

## 4 Investment in subsidiaries

| | Shares in subsidiary undertakings £000 |
|---|---|
| At 1 January 2016 | 24,905 |
| Additions | 47,028 |
| Intercompany disposals | (22,293) |
| At 31 December 2016 | 49,640 |
| Additions | 4,906 |
| At 31 December 2017 | 54,546 |
| *Provision for impairment* | |
| At 1 January 2016 | 2,680 |
| Intercompany disposals during 2016 | (2,600) |
| At 31 December 2017 and 31 December 2016 | 80 |
| *Net book value* | |
| At 31 December 2017 | 54,466 |
| At 31 December 2016 | 49,560 |

On 1 August 2017 the Company acquired the entire share capital of Intrinsic Technology Limited, for a gross consideration of £4.9m, paid in cash.

Details of the Company's subsidiaries are shown in note 15 of the consolidated financial statements.

## 5 Debtors

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | 9,125 | 9,993 |
| Other tax and social security | 127 | 46 |
| Prepayments and accrued income | 16 | 55 |
| Corporation tax recoverable | 422 | 204 |
| | 9,690 | 10,298 |

All amounts shown under debtors fall due for payment within one year.

## 6 Creditors

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Amounts due to subsidiary undertakings | 1067 | 294 |
| Trade creditors | 56 | 41 |
| Accruals and deferred income | 99 | 295 |
| | 1,222 | 630 |

## 7 Borrowings

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Non-current bank loans – secured | 30,707 | 30,688 |
| Current bank loans – secured | – | – |
| | 30,707 | 30,688 |

On 8 April 2016 the Group entered into new facilities with the Royal Bank of Scotland Plc to support the acquisition of Azzurri. These consisted of a revolving credit facility totalling £36.0m (the "RCF") in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20.0m in uncommitted accordion facilities).

On 1 August 2017, the acquisition of the entire share capital of Intrinsic Technology Limited was completed for a consideration of £4.9m on a cash-free, debt-free basis. The acquisition was funded by an extension to, and draw-down under, the Company's existing RCF with the Royal Bank of Scotland Plc. As a result the RCF has been increased by £6m to £42m.

Under the terms of the facility agreement, the committed funds reduce to £31.0m on the three year anniversary, and to £26.0m on the four year anniversary from the date of signing.

The non current bank loan above is stated net of unamortised issue costs of debt of £0.3m (31 December 2016: £0.3m).

The facilities are secured by a fixed and floating charge over the assets of the Company and its subsidiaries. Interest is payable on amounts drawn on the revolving credit facility and overdraft facility at a covenant-depending tiered rate of 1.70 % to 2.85% per annum over LIBOR, with a reduced rate payable on undrawn facility.

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis. The company was in compliance with its covenants ratios tests for 31 December 2017.

The directors consider that there is no material difference between the book value and fair value of the loan.

## 8 Share capital

| | Allotted, called up and fully paid | | | |
|---|---|---|---|---|
| | 2017 Number | 2016 Number | 2017 £000 | 2016 £000 |
| Ordinary shares of 1p each | 14,197,059 | 14,197,059 | 142 | 142 |

The Company adopted new Articles on 27 April 2016, which dispensed with the need for the Company to have an authorised share capital.

No shares were issued in the year (2016: 3,428,572). No shares were repurchased during the year (2016: Nil).

# Notes forming part of the Company financial statements continued

at 31 December 2017

## 9 Related party transactions

Transactions with other Group companies have not been disclosed as permitted by FRS101, as the Group companies are wholly owned.

## 10 Contingent liabilities

As security on the Group's loan and overdraft facilities, the Company has entered into a cross guarantee with its subsidiary undertakings in favour of Royal Bank of Scotland Plc. At 31 December 2017 each subsidiary undertaking had a net positive cash balance.

The Company has entered into an agreement with Maintel Europe Limited, guaranteeing the performance by Maintel Europe Limited of its obligations under the lease on its London premises.

# Directors, Company details and advisers

## Directors

| | |
|---|---|
| J D S Booth | Chairman, non-executive director |
| E Buxton | Chief executive |
| S D Legg | Group sales and marketing director |
| A J McCaffery | Director |
| A P Nabavi | Non-executive director |
| K Stevens | Group integration and transformation director |
| N J Taylor | Non-executive director |
| M V Townsend | Chief financial officer |

## Secretary and registered office

W D Todd,
160 Blackfriars Road,
London SE1 8EZ

## Company number

3181729

## Auditors

BDO LLP,
55 Baker Street,
London W1U 7EU

## Nominated broker and nominated adviser

finnCap Limited,
60 New Broad Street,
London EC2M 1JJ

## Registrars

Computershare Investor Services Plc,
The Pavilions,
Bridgwater Road,
Bristol BS99 6ZY
Tel: 0370 707 1182

Perivan Financial Print 248066

**Maintel Holdings Plc**

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