Interim results for the six months to 30 June 2016

Maintel Holdings Plc

Maintel is a fast-growing provider of managed communications services for the private and public sectors. We are experts at securely connecting our customers in the office, on the move and in the cloud. We bring people closer together to make more agile organisations, more productive workers and better engaged customers.

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About us

Supporting almost 7,000 customers

Over 20 years' experience in our field

A workforce of over 700 highly skilled employees

Ambition builds great vision

We rely on the skills and expertise of Maintel people to deliver project leadership and technology excellence that empowers our customers for the long-term.

Together we build responsive and flexible services that evolve to meet emerging challenges and capitalise on opportunities for change.

An exciting past; a secure future

Founded in 1991, Maintel became AIM listed in 2004. Significant organic growth continues to accompany the success of the business, feeding expansion of its global footprint with additional international capabilities to support requirements for almost 7,000 customers. The highly skilled team of over 700 Maintel people operating out of 8 offices has also grown through the acquisition of several key enterprise technology providers whose expertise complements the core Maintel proposition.

Technology leaders

Maintel's core expertise encompasses unified communications, contact centre solutions, workforce optimisation, networking & security, mobile, connectivity services and managed print services. By combining skills and technologies from vendor and carrier partners with the highly accredited capabilities of its in-house experts, Maintel provides complete end-to-end solutions delivered on-premises or via the cloud.

Highlights

Group revenue	Adjusted profit before tax[5]	Adjusted earnings per share[2]	Interim dividend per share
£38.1m	£3.9m	26.6p	13.4p
↑ 54% 2015: £24.8m	↑ 17% 2015: £3.3m	↓ (3%) 2015: 27.4p	↑ 5% 2015: 12.8p

"The highlight of the period was the acquisition of Azzurri which was transformational for Maintel, adding significantly to our offering both in terms of products and services, specifically in the highly profitable growth areas of managed and cloud based services, and also its highly complementary customer base.

Excluding Azzurri, trading in the underlying Maintel business was slower than expected due to delays in the timing of four large contracts. All of these contracts closed successfully at the end of Q2 2016 and as such we enter the second half with a strong order book as well as a full pipeline of opportunities. Our growth prospects remain positive and we are confident of delivering a profit performance for the year in line with market expectations."

Eddie Buxton, CEO

Highlights

- Group revenue increased 54% to £38.1m (H1 2015: £24.8m), including £15.4m contribution from Azzurri[1]
- Increase in recurring revenue to 75% (H1 2015: 71%)
- Group gross profit increased 38% to £13.1m (H1 2015: £9.5m)
- Group adjusted EBITDA increased 23% to £4.4m (H1 2015: £3.6m), including £1.7m contribution from Azzurri
- Adjusted earnings per share[2] at 26.6p (H1 2015: 27.4p)
- Robust cash performance, with underlying cash conversion[3] of 88%
- Net debt[4] of £27.1m, better than board expectations
- Strong order backlog for H2, on track to meet full year profit expectations
- Progressive dividend policy reiterated:
  - Interim dividend per share at 13.4p (H1 2015: 12.8p)
  - Full year 2016 dividend to grow 5% year on year, with 10% growth for FY17
- Acquisition of Azzurri remains on track to be earnings enhancing in this financial year

Operational highlights

- Transformational acquisition of Azzurri completed 4 May 2016
- Pleasing performance post-acquisition with notable contract wins and delivery of synergy plan on track

Key Financial Information

Unaudited results for 6 months ended 30 June:	**2016**	**2015**	**Increase/ (decrease)**
Group revenue	£38.1m	£24.8m	54%
Adjusted profit before tax[5]	£3.9m	£3.3m	17%
Adjusted earnings per share[2]	26.6p	27.4p	(3%)
Interim dividend per share proposed	13.4p	12.8p	5%

Notes

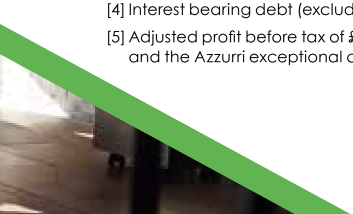
[1] Azzurri Communications Limited (Azzurri) is the principal trading operation for Warden Holdco Limited, which was acquired on 4 May 2016 (note 5)

[2] Adjusted earnings per share is basic (loss)/earnings per share of (8.2p) (H1 2015: 16.8p), adjusted for intangibles amortisation, exceptional costs relating to the acquisition of Azzurri (H1 2015: Proximity) and deferred tax charges on Datapoint and Azzurri profits (note 3). The weighted average number of shares in the period increased to 12.0m (H1 2015: 10.7m) arising from the equity raise in May 2016 to support the Azzurri acquisition

[3] Cash conversion is adjusted EBITDA to operating cash flow excluding acquisition costs

[4] Interest bearing debt (excluding issue costs of debt) minus cash

[5] Adjusted profit before tax of £3.9m (H1 2015: £3.3m) is basic profit before tax, adjusted for intangibles amortisation and the Azzurri exceptional costs (H1 2015: Proximity)



Chairman's statement

I am pleased to be able to report a satisfactory set of results for the period, with reported revenue having increased by 54%, compared with H1 2015, to £38.1m and adjusted profit before tax increasing by 17% to £3.9m (H1 2015: £3.3m), incorporating 2 months' contribution from the Azzurri business acquired in May 2016. Adjusted earnings per share (EPS) decreased by 3% to 26.6p (H1 2015: 27.4p) as a result of the additional shares issued to support the Azzurri acquisition.

The overall gross margin of the Group slightly declined to 34% (H1 2015: 38%). This reduction is due to the inclusion of the lower margin Azzurri business, with a small decrease in the underlying business due to the lower contribution of higher margin professional services to the mix, which we expect to recover in H2 assisted by the large backlog of orders.

Recurring contracted revenue made up 75% of H1 2016 revenues (H1 2015: 71%; FY 2015: 69%) including the contribution from Azzurri which, as anticipated, brought a higher level of recurring revenue to the Group (Azzurri standalone business is 79% recurring).

Revenues in the managed services and technology division increased by 24% to £23.8m, with managed services related revenue up 18% compared with H1 2015 and technology (equipment sales) up 34%, including the contribution from Azzurri. The historic Maintel business showed an 8% decrease, due to four large multi-year contracts only being signed at the end of Q2. This is expected to have a positive impact on the division's growth in H2. The pipeline here remains strong and in particular we are seeing an increase in public sector opportunities.

> In May 2016, the Group completed the transformational acquisition of Azzurri for an enterprise value of £48.5m.

The network services division showed an encouraging 173% growth in revenue to £11.7m (H1 2015: £4.3m) driven by a significant contribution from Azzurri, in particular in data revenues. Excluding Azzurri, divisional gross margin increased by 2% to 28%. Maintel's underlying revenues declined by 2%, after excluding a one-off equipment sale in H1 2015, performing better than the market trend.

The mobile division's revenue increased 90% to £2.7m (H1 2015: £1.4m). Maintel's historic mobile division saw a reduction in revenue of 17% over the previous year, due partly to the changes in roaming charges but mainly due to the reduction in small business customer acquisition and retention. We have taken the decision to reduce our presence in the small business space and refocus activity in line with the other product propositions targeting the mid-market sector.

As part of this review, the Group closed the Azzurri small business mobile operation in East Kilbride and is in the process of migrating these customers from the base. While the combined Group will continue to benefit from real scale in mobile, our exposure is expected to be under 9% of Group turnover moving forward.

In May 2016, the Group completed the transformational acquisition of Azzurri for an enterprise value of £48.5m. In order to fund this, the Group secured banking facilities of £36.0m and issued £24.0m of new equity.

Azzurri brings additional scale, a wider product capability and a large and complementary customer base to the Maintel Group. The combined Group now has a comprehensive and compelling services portfolio including managed, data and cloud based services. Our offering will also allow customers to choose public or private hosted cloud services and will accelerate the shift in business mix to these high growth areas of the market. The early signs are positive, with year on year growth of 83% in our hosted unified communications offering and two further new contracts signed in Q2, which have added an additional 4,500 hosted seats onto our platform.

The integration of Azzurri is progressing very well, with the Group on track to achieve synergies of £1.9m in the current year and the £4.6m of annualised synergies from 2017 forecast at the time of the acquisition. The combined business will be integrated onto a common set of systems in early October 2016.

We ended the first half of the financial year with a healthy backlog of signed projects and enter the second half with a strong pipeline. Trading conditions remain good although there is evidence of sales cycles for larger customers becoming longer.

The Group continues to deliver strong cash generation with 88% of adjusted EBITDA converting to cash in the period and net debt standing at £27.1m at period-end, slightly ahead of board expectations. The board proposes to pay an interim dividend of 13.4p, representing a 5% growth on the 2015 interim dividend, equivalent to 50% of adjusted earnings per share.

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I would like to welcome new colleagues from Azzurri to the Group and thank all our staff for their hard work and commitment during the first half of 2016. It is also a pleasure to welcome new investors and thank them and our existing shareholders for their support.

J D S Booth

Chairman

16 September 2016

Business review

Results for the year

The first half of 2016 has seen an increase in revenue of 54% to £38.1m (H1 2015: £24.8m) and adjusted profit before tax (as described below) of 17% to £3.9m (H1 2015: £3.3m).

The period benefited from two months' contribution from Azzurri (see note 5), which was acquired in May 2016 and therefore made no contribution to the comparative period last year.

Adjusted earnings per share (EPS) decreased by 3% to 26.6p (H1 2015: 27.4p) based on an increased weighted average number of shares in the period of 11,992,977 (H1 2105: 10,739,299) following an equity raise in May 2016 to support the Azzurri acquisition. The acquisition of Azzurri remains on track to be earnings enhancing this financial year.

On an unadjusted basis, the Company generated a loss before tax of £0.7m (H1 2015: profit of £2.1m), equivalent to a loss per share of 8.2p (H1 2015: earnings of 16.8p). This includes £2.8m of exceptional costs associated with the Azzurri acquisition and related restructuring activities (H1 2015: £0.1m in respect of the Proximity acquisition) and intangibles amortisation of £1.8m (H1 2015: £1.1m), the increase in the latter due to the acquired Azzurri intangible.

	6 months to 30 June 2016 £000	**6 months to 30 June 2015 £000**	**Year to 31 December 2015 £000**	**Increase/ (decrease)**
Revenue	38,060	24,750	50,623	54%
(Loss)/profit before tax	(696)	2,094	4,151	
Add back intangibles amortisation	1,752	1,118	2,235	
Exceptional items mainly relating to the acquisition of Azzurri (H1 2015: Proximity)	2,806	98	884	
Adjusted profit before tax	3,862	3,310	7,270	17%
Adjusted EBITDA[(a)]	4,352	3,552	7,725	23%
Of which[(b)]: Maintel	2,634	3,552	7,725	(26%)
Azzurri	1,718	–	–	
Basic (loss)/earnings per share	(8.2p)	16.8p	38.0p	
Diluted	(8.2p)	16.6p	37.5p	
Adjusted earnings per share[(c)]	26.6p	27.4p	60.3p	(3%)
Diluted	26.1p	27.0p	59.5p	(3%)

(a) Excluding the exceptional costs (note 4)

(b) After management charges

(c) Adjusted profit after tax divided by weighted average number of shares (note 3)

Azzurri

Maintel completed the acquisition of Azzurri on 4 May 2016 for an aggregate cash consideration of £1 and with a commitment that the Company procure the repayment of Azzurri's then existing senior debt and other indebtedness immediately following completion. This equated to an enterprise value for Azzurri of £48.5m.

Azzurri was a transformational acquisition for Maintel, providing additional scale and product capability, with an attractive customer base. The combined Group now has a comprehensive and compelling services portfolio including managed, data and cloud based services. The enlarged Group offering will also allow customers to choose public or private hosted cloud services and will accelerate the shift in business mix to these high growth areas of the market.

Since acquisition the business has been performing well with some notable new customer wins, particularly with ICON Communicate, Azzurri's hosted unified communications proposition. Recent major wins include a large insurance company with 3,000 seats, a large charity with 1,600 seats and an expansion of the relationship with a major housing association. There has been an 83% increase in UCaaS seats on the ICON platform in the past twelve months.

We are continuing Azzurri's investment in the ICON platform; Microsoft's Skype for Business product has been added to Mitel's unified communications offering, and we will be launching an Avaya-based service before the year end, providing support for three of the recognised leading vendors in the unified communications market. We have also invested in increasing both the capacity and resilience of the platform, and gained certification to enable us to offer fully PCI compliant services, allowing us to offer a significant advantage for any organisation processing card payments.

The integration of Azzurri is on track and progressing well; the senior management team is in place, the sales team has been integrated and reorganised; and the back office re-organisation, including moving onto one set of systems across the Group, will have been completed by the end of the year. The anticipated 2016 in-year and 2017 annualised synergies of £1.9m and £4.6m respectively are in line with previously stated objectives.

As part of the integration planning, the board has undertaken a strategic review of its mobile business, resulting in the decision to reduce its exposure in the SME space. As a result Azzurri's East Kilbride operation was closed in May 2016. Consequently, the ongoing exposure to mobile is expected to account for under 9% of Group turnover.

As a consequence of the acquisition, significant legal and professional fees have been incurred, amounting to £2.5m. In addition, as part of the integration process, there have been a number of redundancies across the Group in H1. The cost of these redundancies along with other synergy related costs amounted to £0.3m. Both these costs have been disclosed as an exceptional item in the income statement. Further exceptional costs associated with the integration will be incurred in H2 but with cost savings thereafter.

Business review continued

Review of operations

The following table shows the performance of the three operating segments of the Group. The 2016 half year numbers include two months' contribution from Azzurri.

Revenue analysis	6 months to 30 June 2016 £000	6 months to 30 June 2015 £000	Year to 31 December 2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)				
Managed services related	11,238	12,005	23,900	(6%)
Technology [d]	6,408	7,175	15,714	(11%)
Managed services and technology division	17,646	19,180	39,614	(8%)
Network services division	3,960	4,267	8,383	(7%)
Mobile division	1,187	1,430	2,815	(17%)
Total Maintel (excluding Azzurri)	22,793	24,877	50,812	(8%)
Azzurri [e]				
Managed services related	2,908	–	–	–
Technology [d]	3,228	–	–	–
Managed services and technology division	6,136	–	–	–
Network services division	7,698	–	–	–
Mobile division	1,523	–	–	–
Total Azzurri	15,357	–	–	–
Total Maintel Group				
Managed services related	14,146	12,005	23,900	18%
Technology [d]	9,636	7,175	15,714	34%
Managed services and technology division	23,782	19,180	39,614	24%
Network services division	11,658	4,267	8,383	173%
Mobile division	2,710	1,430	2,815	90%
Intercompany	(90)	(127)	(189)	(29%)
Total Maintel Group	38,060	24,750	50,623	54%

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

(e) Azzurri was acquired on 4 May 2016, and therefore an estimated two months' of its financial performance has been considered post- acquisition

Excluding Azzurri, the Group experienced lower trading activity than expected in H1, with four major sales contracts taking longer to close than anticipated. All were closed at the end of Q2 and have contributed to our strong H2 order book.

Three of the contracts are multi-year managed services contracts with a total value of over £11.0m. While these contract wins have had no impact on H1 revenues they will have a significant positive impact on H2 results.

Recurring contracted revenue made up 75% of H1 2016 revenues (H1 2015: 71%) including the 2 months' contribution from Azzurri which, as anticipated, brought a higher level of recurring revenue to the Group (Azzurri standalone business is 79% recurring in the period since acquisition).

Overall gross margin for the Group reduced to 34% (H1 2015: 38%) driven by the lower margin contribution from Azzurri in this period.

Detailed divisional performance is described further below.

Managed services and technology division

The managed services and technology division provides the management, maintenance, service and support of both on premise and off premise voice and data equipment across the UK and internationally, on a contracted basis. It also supplies and installs voice and data equipment together with providing professional services, both to our direct clients and through our partner relationships.

Revenues in this division increased by 24% to £23.8m, with managed services related revenue up 18% compared with H1 2015 and technology (equipment and professional services sales) up 34%, both significantly boosted by the contribution from Azzurri. The underlying Maintel business excluding Azzurri declined by 8%, with managed services related revenue reducing by 6% and technology revenue by 11%, due to the timing of new contracts completing, as detailed above.

The division's sales pipeline remains strong in both private and public sectors and we are starting to see significant growth in the hosted/cloud opportunities as a proportion of the pipeline.

Business review continued

Managed services and technology division continued

	6 months to 30 June 2016 £000	6 months to 30 June 2015 £000	Year to 31 December 2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)				
Divisional revenue	17,646	19,180	39,614	(8%)
Division gross profit	6,666	7,749	15,749	(14%)
Gross margin (%)	38%	40%	40%	
Azzurri				
Divisional revenue	6,136	–	–	–
Division gross profit	1,878	–	–	–
Gross margin (%)	31%	–	–	
Total Maintel Group				
Divisional revenue	23,782	19,180	39,614	24%
Division gross profit	8,544	7,749	15,749	10%
Gross margin (%)	36%	40%	40%	

Managed services

Excluding Azzurri, revenue declined by 6% due to the delay in signing the previously highlighted large contracts which completed during June. As a result the managed service base grew to £26m, a 6% increase over December 2015; this will have a significant benefit to H2 results.

H1 2016 continued to see a reduction in the legacy maintenance base as the Group focuses on winning larger managed service contracts with newer technology and a wider suite of services to support these contracts.

The pipeline for new managed services opportunities is growing; however, the greater complexity of these opportunities has resulted in a lengthening of sales cycles and the on-boarding process compared to traditional maintenance contracts.

Technology

Excluding Azzurri, the first half of 2016 was soft for technology sales which held back headline revenue growth year on year in this area.

As with managed services, the backlog of sales moving into H2 is healthy, with a £0.9m project to upgrade a data network for a public sector client and a £1.8m contract for a large construction group, being delivered in August/September.

The public sector framework is providing a significant source of new opportunities particularly in healthcare and local government. We are, however, starting to see some impact of cloud based opportunities on equipment sales and we see this trend continuing, and we are well placed with Azzurri's ICON platform to take advantage of this.

Network services division

The network services division sells a portfolio of services which includes telephone line rental, inbound and outbound telephone calls, data connectivity, internet access and hosted IP telephony solutions. These services complement those offered by the managed service and technology division and the mobile division.

	6 months to 30 June 2016 £000	6 months to 30 June 2015 £000	Year to 31 December 2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri) [f]				
Call traffic	1,242	1,288	2,589	(4%)
Line rental	1,441	1,655	3,185	(13%)
Data connectivity services	1,265	1,309	2,566	(3%)
Other	12	15	43	(20%)
Total division	3,960	4,267	8,383	(7%)
Division gross profit	1,095	1,121	2,284	(2%)
Gross margin (%)	28%	26%	27%	
Azzurri				
Call traffic	1,132	–	–	–
Line rental	2,029	–	–	–
Data connectivity services	4,473	–	–	–
Other	64	–	–	–
Total division	7,698	–	–	–
Division gross profit	2,102	–	–	–
Gross margin (%)	27%	–	–	–
Total Maintel Group				
Call traffic	2,374	1,288	2,589	84%
Line rental	3,470	1,655	3,185	110%
Data connectivity services	5,738	1,309	2,566	338%
Other	76	15	43	407%
Total division	11,658	4,267	8,383	173%
Division gross profit	3,197	1,121	2,284	185%
Gross margin (%)	27%	26%	27%	

(f) VoIP of £214,000 (30 June 2015: £161,000; 31 December 2015: £370,000) and Inbound calls of £90,000 (30 June 2015: £89,000; 31 December 2015: £182,000) have been reclassified from Other to Data connectivity services and Call traffic respectively

Business review continued

Network services division continued

Network services revenues increased by 173% year on year, driven by the contribution from Azzurri.

Excluding Azzurri, Maintel revenues declined by 7%, but excluding a one off £235,000 equipment sale associated with a WAN optimisation project in H1 2015, underlying revenue only declined by 2%. Divisional gross margin increased by 2% to 28% partly due to the H1 2015 equipment sale being at low margin.

Call minutes revenue was 4% down on the prior year driven by a major customer re-signing at lower volumes as they implement a Skype for Business roll out, which also impacted legacy line rental revenue. Call revenue has been more resilient than expected given the combination of the market reduction in call volumes, regulatory price reductions and bundled free minute packages.

Legacy line rental revenues decreased by 13%, impacted by a combination of the above and our continued pro-active transitioning of customers onto newer SIP based voice technology, which has seen year on year growth of 33%.

As we continue to see this move away from legacy calls and lines services to newer data and SIP technology, our underlying data services revenue has grown by a healthy 18% year on year, excluding the one off project installation in H1 2015 previously noted.

Moving forward, the acquisition of Azzurri strengthens our position in this sector with ICON Connect, our Data Network proposition.

Mobile division

Maintel Mobile derives its revenues primarily from commissions received under its dealer agreements with Vodafone and O_2, whilst Azzurri derives most of its revenues from dealer agreements with O_2.

	6 months to 30 June 2016 £000	6 months to 30 June 2015 £000	Year to 31 December 2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)				
Revenue	1,187	1,430	2,815	(17%)
Gross profit	581	694	1,196	(16%)
Gross margin (%)	49%	49%	42%	
Azzurri				
Revenue	1,523	–	–	–
Gross profit	859	–	–	–
Gross margin (%)	56%	–	–	–
Total Maintel Group				
Revenue	2,710	1,430	2,815	90%
Gross profit	1,440	694	1,196	107%
Gross margin (%)	53%	49%	42%	

	At 30 June 2016	At 30 June 2015	At 31 December 2015	Increase/ (decrease)
Maintel (excluding Azzurri)				
Number of customers	773	770	830	-%
Number of connections	11,643	12,662	12,011	(8%)
Azzurri				
Number of customers	2,192	–	–	–
Number of connections	48,000	–	–	–
Total Maintel Group				
Number of customers	2,965	770	830	285%
Number of connections	59,643	12,662	12,011	371%

Business review continued

Mobile division continued

Excluding Azzurri, the Mobile division saw a reduction in revenue of 17% over the previous year due partly to the changes in roaming charges but mainly due to the reduction in small business customer acquisition and retention as the Group refocused its investment into other areas of higher growth potential.

Gross margins of 49% were maintained at similar levels to H1 2015.

As highlighted earlier in the report, as part of integrating Azzurri, the Group has undertaken a strategic review of its mobile business, resulting in the decision to reduce its presence in the small business space. This reduces the exposure of mobile for the Group and re-focuses our sales activity in line with the other product propositions in the target mid-market sector. As a result, the ongoing exposure to mobile is expected to reduce to under 9% of Group turnover.

As part of this review, the Group closed the Azzurri small business mobile operation in East Kilbride and is in the process of removing these customers from the Azzurri base.

The combined Group will continue to benefit from real scale in mobile as well as Azzurri's greater experience and well-defined mobile managed service wrap that is attractive to larger customers.

Administrative expenses, excluding intangibles amortisation, management recharges and non-trading adjustments

Administrative expenses [g]	**6 months to 30 June 2016 £000**	**6 months to 30 June 2015 £000**	**Year to 31 December 2015 £000**	**Increase/ (decrease)**
Maintel (excluding Azzurri)				
Maintel sales expenses	2,958	3,077	6,323	(4%)
Maintel other administrative expenses	3,011	2,956	5,207	2%
Maintel excluding Azzurri total administrative expenses	5,969	6,033	11,530	(1%)
Azzurri				
Azzurri sales expenses	1,614	–	–	
Azzurri other administrative expenses	1,434	–	–	
Azzurri total administrative expenses	3,048	–	–	
Total Maintel Group				
Total sales expenses	4,572	3,077	6,323	49%
Total other administrative expenses	4,445	2,956	5,207	50%
Total administrative expenses	9,017	6,033	11,530	49%

(g) Excluding intangibles amortisation, management recharges and exceptional expenses

Total administrative expenses increased by 49% to £9.0m. Excluding Azzurri, Maintel's costs are down 1% on last year at £6.0m, with lower underlying sales costs and headcount compensating for inflation increases. In addition, property costs are lower year on year, as a result of the office moves in H2 2015 which included the consolidation of two offices (Brentford and Webber Street) into our current Blackfriars HQ and the move to cheaper Dublin premises.

Following the Azzurri acquisition, headcount as at 30 June 2016 for the Group now stands at 727 (30 June 2015: 282).

As we progress with our integration plan, total administration costs will continue to be tightly controlled and we will deliver further cost savings in H2 in line with the integration plan produced at the time of the transaction.

The exceptional costs of £2.8m (H1 2015: £0.1m) shown in the income statement primarily relate to the legal and professional fees from the acquisition of Azzurri of £2.5m and redundancy costs incurred resulting from the acquisition and integration of £0.3m (H1 2015: Proximity of £0.1m).

The intangibles amortisation charge increased in the period due to the 2 month charge resulting from the Azzurri acquisition. 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 €1.36 = £1 at 31 December 2015 to €1.21 = £1 at 30 June 2016. The effect of this and other movements in the period was a gain to the income statement of £92,000 (H1 2015 charge: £100,000), 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 £37,000 in the period (H1 2015: £54,000).

Interest

The increase in the net interest charge to £295,000 (H1 2015: £139,000) resulted from the additional borrowings taken on to finance the Azzurri acquisition, with net borrowings excluding issue costs of debt increasing to £27.1m at 30 June 2016 (30 June 2015: £8.8m) from a year end 2015 balance of £3.2m.

Business review continued

Taxation

The effective tax charge for H1 2016 was £290,000 against the loss of £696,000 (H1 2015 tax charge: £287,000), for the reasons described below. Each of the Group companies is taxed at 20%, with the exception of Maintel International Limited, which is taxed at 12.5% (H1 2015: 20.25%; 12.5%). Certain expenses that are disallowable for tax raise the underlying effective rate above this, and form the predominant reason why a tax charge was incurred on the period's loss.

The tax charge in the period was adversely impacted due to certain acquisition related costs deemed disallowable which amounted to £497,000. This was offset by the tax charge benefiting from some adjustments, including (a) relief claimed on certain 2015 costs which were deemed disallowed in that period but are now allowed following further investigation (£26,000), and (b) the difference in the rate at which deferred tax on the amortisation of the intangibles is released (£21,000).

The tax charge in the period includes a deferred tax charge relating to the tax losses of the Datapoint companies, whereby they do not currently pay corporation tax on their profits, but a tax asset in respect of the historic losses is charged to the income statement as the losses are used. This deferred tax charge in the period was £237,000 (H1 2015: £179,000).

The tax charge in the period also includes a deferred tax charge relating to the Azzurri profits, whereby they do not currently pay corporation tax on their profits, but a tax asset in respect of the historic capital allowances is charged to the income statement as the capital allowances are used. This deferred tax charge in the period was £311,000 in relation to the brought forward capital allowances.

Dividends and adjusted earnings per share

An interim dividend for 2015 of 12.8p (£1.4m) was paid on 7 October 2015 and a final dividend for 2015 of 16.5p per share (£1.8m) was paid on 5 April 2016, taking the total dividend declared in 2015 to 29.3 pence per share.

As previously highlighted, it is the board's intention to increase the dividend pence per share by 5% over 2015 total dividend pence per share and then growing progressively year on year by 10% for 2017.

As a result, the board proposes to pay an interim dividend of 13.4p in respect of 2016 on 12 October to shareholders on the register at the close of business on 30 September, which equates to a pay-out ratio as a percentage of adjusted earnings of 50%. The corresponding ex-dividend date will be 29 September. In accordance with accounting standards, this dividend is not accounted for in the financial statements for the period under review, as it had not been committed as at 30 June 2016.

Consolidated statement of financial position

Net assets increased by £20.4m to £27.0m from 31 December 2015 due to the inclusion of the acquired balance sheet of Azzurri.

Intangible assets at £64.4m, have increased by £46.3m from 31 December 2015, driven by intangibles arising on the acquisition of Azzurri (see note 5).

The value of property, plant and equipment has increased by £3.0m to £3.6m from 31 December 2015. This includes a freehold property valued at £1.6m and plant and equipment and leasehold improvements of £1.3m resulting from the acquisition of Azzurri. Post-acquisition, Azzurri incurred £0.2m of expenditure relating to the ICON platform and expanding capacity in its data centre infrastructure. Maintel incurred minimal capital expenditure in H1 2016 with its tangible asset value in line with the year end 2015 balance at £0.7m.

Trade and other receivables increased by £24.5m in the period to £35.5m with £21.2m attributable to Azzurri. Excluding Azzurri, Maintel trade and other receivables increased by £3.3m, the main elements being (a) an increase in trade receivables driven by two orders for equipment and licences amounting to £3.5m, both of which were settled in August, offsetting the impact of a high level of seasonal renewals at the end of 2015 and (b) higher prepaid support costs covering several contracts signed in H1 2016.

Inventories are valued at £2.7m at 30 June, an increase of £1.4m from 31 December 2015, with Azzurri contributing £1.5m. Excluding Azzurri, Maintel inventories have reduced marginally by £0.1m compared to year end 2015 to £1.2m, as a result of strong control over the levels of managed service stock; there was little movement in the stock held for resale.

Trade and other payables amounted to £49.6m, an increase of £29.3m in the period. Excluding Azzurri, trade and other payables were at £19.8m reflecting a £0.6m reduction when compared to the year end 2015 value of £20.3m. The main drivers were the weighting of customer contract renewals to H2 2015 so that a higher level of deferred income is carried at December than at June, together with a lower VAT liability caused by lower equipment sales and the impact of acquisition costs. These were offset by an increase in trade payables and accruals due to the impact of the remaining acquisition costs settled in July, vendor costs associated with a large equipment deal in June and accrued bank interest.

Corporation tax liabilities have reduced by £0.1m due to lower profits emanating from Maintel's trading activities in H1 2016. As noted in the Taxation section above, no corporation tax provision has been made for Azzurri's profit contribution since acquisition, as there are sufficient brought forward capital allowances to offset any corporation tax provision required.

Business review continued

Consolidated statement of financial position continued

The deferred tax liability has increased by £2.1m in the first half to £2.9m resulting from (a) the creation of a deferred tax liability of £4.3m associated with the Azzurri intangibles of £23.2m and (b) the deferred tax adjustment related to the Datapoint and Azzurri historical tax losses and capital allowances respectively of £0.6m in aggregate offset by (a) a deferred tax asset of £2.5m resulting from the acquisition of Azzurri (see note 5), and (b) the unwinding of intangibles amortisation related deferred tax liabilities from Azzurri and previous acquisitions of £0.3m.

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 those acquisitions.

The intangible assets represented by purchased customer contracts and relationships, brand value, product platforms and software were carried at £29.7m at the period end (31 December 2015: £8.3m). 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 £1.8m being amortised in H1 2016 (H1 2015: £1.1m), the increase being attributable to the Azzurri intangibles acquired in May 2016.

Goodwill of £34.7m (31 December 2015: £9.9m) increased by £24.8m as a result of the Azzurri acquisition. No impairment has been charged to the consolidated statement of comprehensive income in H1 2016 (H1 2015: £nil).

Cash flow

The Group had net debt (excluding issue costs of debt) of £27.1m at 30 June 2016, compared with £3.2m at 31 December 2015, and an explanation of the £23.9m increase is set out below.

	6 months to 30 June 2016 £000	6 months to 30 June 2015 £000	Year to 31 December 2015 £000
Cash generated from/(consumed by) operating activities before acquisition costs	3,826	(113)	7,829
Taxation	(231)	(761)	(1,048)
Capital expenditure less proceeds of sale	(250)	(49)	(554)
Finance cost (net)	(295)	(139)	(264)
Free cashflow	3,050	(1,062)	5,963
Dividends	(1,777)	(1,243)	(2,621)
Acquisition (net of cash acquired)	(45,433)	–	–
Acquisition costs paid	(2,514)	–	–
Proceeds from borrowings	31,000	–	–
Repayments of borrowings	(6,000)	(800)	(4,000)
Issue of new ordinary shares	24,000	54	54
Share issue costs	(781)	–	–
Issue costs of debt	(348)	–	–
Increase/(decrease) in cash and cash equivalents	1,197	(3,051)	(604)
Cash and cash equivalents at start of period	2,784	3,347	3,347
Exchange differences	(37)	54	41
Cash and cash equivalents at end of period	3,944	350	2,784
Bank borrowings	(31,000)	(9,200)	(6,000)
Net debt excluding issue costs of debt	(27,056)	(8,850)	(3,216)
Adjusted EBITDA (note 4)	4,352	3,552	7,725

The Group generated £3.8m of cash from operating activities excluding acquisition costs, with a £0.3m negative working capital impact in the period, compared with £0.1m consumed in the comparative period. This was underpinned by a high cash conversion rate of 88% of adjusted EBITDA to operating cash flow excluding acquisition costs.

Business review continued

Cash flow continued

The net effect of the equity raised and new borrowing facilities associated with the acquisition of Azzurri together with repaying existing borrowing facilities, acquisition related costs and settlement of the 2015 final dividend consumed £1.9m in cash and cash equivalents.

The increase in the net debt position compared with December 2015 is a result of the borrowings acquired in May 2016 to fund the acquisition of Azzurri (see note 8).

Outlook

Notwithstanding the softer than anticipated trading in the Maintel business excluding Azzurri, the first half was a very positive period for Maintel as a Group. The highlight of the period was the acquisition of Azzurri, which in the two months' since completion performed well and in line with expectations, including the signing of several substantial contracts which have contributed to our order backlog for the second half. Our integration plan is on track, with significant further cost savings to be made in the second half. As stated at the time of the acquisition of Azzurri, we expect the acquisition to be earnings enhancing this financial year.

In the underlying Maintel business, the signing of the four delayed contracts at the end of Q2 will have a positive impact on growth in H2 and we enter the second half with a strong order book and a full pipeline of opportunities.

With our service offering now broader and more attractive than previously, we can expect a greater proportion of opportunities to be successfully converted, albeit that with larger customers, multi service contracts are more complex, resulting in longer sales cycles.

We therefore remain confident for the second half of the financial year, and of delivering a profit outcome for the full year in line with the market expectations.

The Group continues to deliver good cash generation and the focus is on maintaining a progressive dividend policy whilst simultaneously reducing the debt levels, in line with the board's target of 2x adjusted EBITDA by the end of the financial year.

On behalf of the board

E Buxton

Chief Executive

16 September 2016

Consolidated statement of comprehensive income

for the 6 months ended 30 June 2016 (unaudited)

	Note	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
Revenue	2	38,060	24,750	50,623
Cost of sales		(24,961)	(15,268)	(31,571)
Gross profit		13,099	9,482	19,052
Other operating income		75	–	12
Administrative expenses				
Intangibles amortisation		(1,752)	(1,118)	(2,235)
Exceptional costs	7	(2,806)	(98)	(884)
Other administrative expenses		(9,017)	(6,033)	(11,530)
		(13,575)	(7,249)	(14,649)
Operating (loss)/profit		(401)	2,233	4,415
Finance income		3	–	1
Financial expense		(298)	(139)	(265)
(Loss)/profit before taxation		(696)	2,094	4,151
Taxation expense		(290)	(287)	(69)
(Loss)/profit for the period and attributable to owners of the parent		(986)	1,807	4,082
Other comprehensive (expense)/income for the period				
Exchange differences on translation of foreign operations		(37)	54	41
Total comprehensive (loss)/income for the period		(1,023)	1,861	4,123
(Loss)/earnings per share				
Basic	3	(8.2p)	16.8p	38.0p
Diluted	3	(8.2p)	16.6p	37.5p

Consolidated statement of financial position

at 30 June 2016 (unaudited)

	Note	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
Non current assets				
Intangible assets		64,402	19,249	18,132
Property, plant and equipment		3,631	262	673
		68,033	19,511	18,805
Current assets				
Inventories		2,704	1,386	1,298
Trade and other receivables		35,539	12,578	11,040
Cash and cash equivalents		3,944	350	2,784
		42,187	14,314	15,122
Total assets		110,220	33,825	33,927
Current liabilities				
Trade and other payables		49,555	17,353	20,276
Current tax liabilities		116	396	257
Borrowings	8	–	2,000	2,000
Total current liabilities		49,671	19,749	22,533
Non current liabilities				
Deferred tax liability		2,894	1,200	834
Borrowings	8	30,652	7,200	4,000
Total net assets		27,003	5,676	6,560
Equity				
Issued share capital		142	108	108
Share premium		24,354	1,169	1,169
Capital redemption reserve		31	31	31
Share based remuneration reserve		24	–	–
Translation reserve		51	101	88
Retained earnings		2,401	4,267	5,164
Total equity		27,003	5,676	6,560

Consolidated statement of changes in equity

for the 6 months ended 30 June 2016 (unaudited)

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Share based remuneration reserve £000	Retained earnings £000	Total £000
At 1 January 2015	107	1,116	31	47	–	3,703	5,004
Profit for the period	–	–	–	–	–	1,807	1,807
Other comprehensive income: foreign currency translation differences	–	–	–	54	–	–	54
Total comprehensive income for the period	–	–	–	54	–	1,807	1,861
Dividend	–	–	–	–	–	(1,243)	(1,243)
Issue of new ordinary shares	1	53	–	–	–	–	54
At 30 June 2015	108	1,169	31	101	–	4,267	5,676
Profit for the period	–	–	–	–	–	2,275	2,275
Other comprehensive income: foreign currency translation differences	–	–	–	(13)	–	–	(13)
Total comprehensive income for the period	–	–	–	(13)	–	2,275	2,262
Dividend	–	–	–	–	–	(1,378)	(1,378)
At 31 December 2015	108	1,169	31	88	–	5,164	6,560
Loss for the period	–	–	–	–	–	(986)	(986)
Other comprehensive income: foreign currency translation differences	–	–	–	(37)	–	–	(37)
Total comprehensive loss for the period	–	–	–	(37)	–	(986)	(1,023)
Dividend	–	–	–	–	–	(1,777)	(1,777)
Issue of new ordinary shares	34	23,966	–	–	–	–	24,000
Share issue costs	–	(781)	–	–	–	–	(781)
Grant of share options	–	–	–	–	24	–	24
At 30 June 2016	142	24,354	31	51	24	2,401	27,003

Consolidated statement of cash flows

for the 6 months ended 30 June 2016 (unaudited)

	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
Operating activities			
(Loss)/profit before taxation	(696)	2,094	4,151
Adjustments for:			
Intangibles amortisation	1,752	1,118	2,235
Share based payment charge	24	–	–
(Loss)/profit on sale of fixed asset	–	(2)	4
Depreciation charge	195	103	191
Interest received	(3)	–	(1)
Interest payable	298	139	265
Operating cash flows before changes in working capital	1,570	3,452	6,845
Decrease in inventories	22	50	138
(Increase)/decrease in trade and other receivables	(3,971)	(159)	1,379
Increase/(decrease) in trade and other payables	3,691	(3,456)	(533)
Cash generated from/(consumed by) operating activities (see sub analysis below)	1,312	(113)	7,829
Cash generated from/(consumed by) operating activities excluding acquisition costs	3,826	(113)	7,829
Exceptional cost – acquisition costs	(2,514)	–	–
Cash generated from/(consumed by) operating activities	1,312	(113)	7,829
Tax paid	(231)	(761)	(1,048)
Net cash flows from operating activities	1,081	(874)	6,781
Investing activities			
Purchase of plant and equipment	(250)	(51)	(554)
Proceeds from disposal of plant and equipment	–	2	–
Purchase price in respect of business combination	(47,028)	–	–
Net cash acquired with subsidiary undertaking	1,595	–	–
	(45,433)	–	–
Interest received	3	–	1
Net cash flows from investing activities	(45,680)	(49)	(553)

	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
Financing activities			
Proceeds from borrowings	31,000	–	–
Repayment of borrowings	(6,000)	(800)	(4,000)
Interest payable	(298)	(139)	(265)
Issue of new ordinary shares	24,000	54	54
Share issue costs	(781)	–	–
Issue costs of debt	(348)	–	–
Equity dividends paid	(1,777)	(1,243)	(2,621)
Net cash flows from financing activities	45,796	(2,128)	(6,832)
Net increase/(decrease) in cash and cash equivalents	1,197	(3,051)	(604)
Cash and cash equivalents at start of period	2,784	3,347	3,347
Exchange differences	(37)	54	41
Cash and cash equivalents at end of period	3,944	350	2,784

Notes to the interim financial information

1. Basis of preparation

The financial information in these interim results is that of the holding company and all of its subsidiaries (the Group). It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards as adopted for use in the EU (IFRSs) but does not include all of the disclosures that would be required under IFRSs. Except for the revised revenue recognition policy adopted in the Mobile segment, the accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2015 and are those which will form the basis of the 2016 financial statements.

From 1 January 2016, the Group has reviewed its Mobile revenue recognition policy, and concluded to change its policy relating to the recognition of advance commissions received from network operators. There is no material difference in the financial statements as a result of adopting the new revenue recognition policy.

A number of amendments to and interpretations of existing standards have become effective for periods beginning on 1 January 2016, but no new standards; none of these is expected to materially affect the Group.

The Group's results are not materially affected by seasonal variations.

The comparative financial information presented herein for the year ended 31 December 2015 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The financial information for the half-years ended 30 June 2016 and 30 June 2015 is unaudited but has been subject to a review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity''.

In preparing the interim financial statements the directors have considered the Group's financial projections, borrowing facilities and other relevant financial matters, and the board is satisfied that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

2. Segmental information

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 business review.

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.

Six months to 30 June 2016 (unaudited)

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	23,782	11,658	2,710	(90)	38,060
Gross profit	8,544	3,197	1,440	(82)	13,099
Other operating income					75
Total administrative expenses					(9,017)
Intangibles amortisation					(1,752)
Exceptional costs					(2,806)
Operating loss					(401)
Interest (net)					(295)
Loss before taxation					(696)
Taxation expense					(290)
Loss after taxation					(986)

Further analysis of revenue streams is shown in the business review.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £46,000 (H1 2015: £86,000) attributable to the managed service and technology segment, £41,000 (H1 2015: £38,000) to the network services segment and £3,000 (H1 2015: £3,000) to the mobile segment.

Notes to the interim financial information continued

2. Segmental information continued

Six months to 30 June 2016 (unaudited) continued

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Intangibles amortisation	111	–	–	1,641	1,752
Exceptional costs	319	–	–	2,487	2,806

Six months to 30 June 2015 (unaudited)

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	19,180	4,267	1,430	(127)	24,750
Gross profit	7,749	1,121	694	(82)	9,482
Total administrative expenses					(6,033)
Intangibles amortisation					(1,118)
Exceptional costs					(98)
Operating profit					2,233
Interest (net)					(139)
Profit before taxation					2,094
Taxation expense					(287)
Profit after taxation					1,807

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Intangibles amortisation	126	–	–	992	1,118
Exceptional costs	98	–	–	–	98

Year ended 31 December 2015 (audited)

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	39,614	8,383	2,815	(189)	50,623
Gross profit	15,749	2,284	1,196	(177)	19,052
Other operating income					12
Total administrative expenses					(11,530)
Intangibles amortisation					(2,235)
Exceptional costs					(884)
Operating profit					4,415
Interest (net)					(264)
Profit before taxation					4,151
Taxation					(69)
Profit after taxation					4,082

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Intangibles amortisation	251	–	–	1,984	2,235
Exceptional costs	884	–	–	–	884

Revenue is wholly attributable to the principal activities of the Group and other than sales of £4,282,000 to EU countries and £966,000 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, £90,000 attributable to the managed service and technology segment, £93,000 to the network services segment and £6,000 to the mobile segment.

Notes to the interim financial information continued

3. Earnings per share

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

	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
Earnings used in basic and diluted EPS, being (loss)/profit after tax	(986)	1,807	4,082
Adjustments:			
Amortisation of intangibles	1,752	1,118	2,235
Exceptional costs (note 7)	2,806	98	884
Tax relating to above adjustments	(934)	(264)	(666)
Deferred tax charge on Datapoint profits	239	179	451
Deferred tax charge on Azzurri profits	311	–	–
Increase in deferred tax asset	–	–	(500)
Adjusted earnings used in adjusted EPS	3,188	2,938	6,486

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

Datapoint has brought forward tax losses, so that it will pay no tax in respect of its 2016 profits. On acquisition and subsequently in 2015, however, a deferred tax asset was recognised in respect of its tax losses, and a deferred tax charge 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.

Azzurri has brought forward tax capital allowances, so that it will pay no tax in respect of its 2016 profits. On acquisition, a deferred tax asset was acquired in respect of its capital allowances, and a deferred tax charge 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.

	6 months to 30 June 2016 Number (000s)	6 months to 30 June 2015 Number (000s)	Year to 31 December 2015 Number (000s)
Weighted average number of ordinary shares of 1p each	11,993	10,739	10,754
Potentially dilutive shares	200	140	145
	12,193	10,879	10,899
(Loss)/profit per share			
Basic	(8.2p)	16.8p	38.0p
Basic and diluted	(8.2p)	16.6p	37.5p
Adjusted – basic after the adjustments in the table above	26.6p	27.4p	60.3p
Adjusted – basic and diluted after the adjustments in the table above	26.1p	27.0p	59.5p

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.

4. Earnings before interest, tax, depreciation and amortisation (EBITDA)

The following table shows the calculation of EBITDA and adjusted EBITDA:

	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
(Loss)/Profit before tax	(696)	2,094	4,151
Net interest payable	295	139	264
Depreciation of property, plant and equipment	195	103	191
Amortisation of customer relationship intangibles	1,752	1,118	2,235
EBITDA	1,546	3,454	6,841
Exceptional costs	2,806	98	884
Adjusted EBITDA	4,352	3,552	7,725

Notes to the interim financial information continued

5. Business combinations

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

	£000
Purchase consideration	
Cash	47,028
Assets and liabilities acquired	
Tangible fixed assets	2,903
Inventories	1,428
Trade and other receivables	20,528
Cash	1,595
Trade and other payables	(25,588)
	866
Intangible assets	
Customer relationships	16,030
Software	2,369
Brand	3,480
Product platform	1,299
Deferred tax asset	2,459
Deferred tax liability on Intangible assets	(4,319)
Net assets and liabilities acquired	22,184
Goodwill	24,844

Cash flows arising from the acquisition were as follows:	**£000**
Purchase consideration settled in cash	(47,028)
Direct acquisition costs (note 7)	(2,514)
Cash balances acquired	1,595
	(47,947)

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 business review. 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 and Warden Midco Limited are the holding company and intermediate holding company 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 £0.5m.

The trade and other receivables are stated net of impairment.

Since its acquisition, Azzurri has contributed the following to the results of the Group before management charges of £0.2m:

	£000
Revenue	15,357
Profit before tax	1,116

Azzurri's revenue for the period 1 January 2016 to 30 June 2016 was £43.6m and before management charges, its loss before tax, including exceptional and pre acquisition debt costs was £2.5m.

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.

Notes to the interim financial information continued

6. Dividends

	6 months to 30 June 2016 £000 (unaudited)	6 months to 30 June 2015 £000 (unaudited)	Year to 31 December 2015 £000 (audited)
Dividends paid			
Final 2014, paid 1 May 2015 – 11.6p per share	–	1,243	1,243
Interim 2015, paid 7 October 2015 – 12.8p per share	–	–	1,378
Final 2015, paid 5 April 2016 – 16.5p per share	1,777	–	–
	1,777	1,243	2,621

The directors propose the payment of an interim dividend for 2016 of 13.4p (2015: 12.8p) per ordinary share, payable on 12 October 2016 to shareholders on the register at 30 September 2016. The cost of the proposed dividend, based on the number of shares in issue as at 15 September 2016, is £1.9m (2015: £1.4m).

7. Exceptional costs

On 4 May 2016 the Company acquired the entire issued share capital of Warden Holdco Limited whose principal trading entity is Azzurri Communications Limited. Legal and professional costs of £2.5m were incurred by Maintel in 2016 in relation to the acquisition, together with redundancy costs of £0.3m as a result of synergies achieved pre and post-acquisition. H1 2015 redundancy costs of £0.1m related to the acquisition of Proximity. These costs have been treated as exceptional in the income statement as they are not normal operating expenses.

8. Borrowings

	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
Current bank loan – secured	–	2,000	2,000
Non-current bank loan – secured	30,652	7,200	4,000
	30,652	9,200	6,000

On 8 April 2016 the Group entered into new facilities with the Royal Bank of Scotland plc to support the acquisition of Azzurri. These consist of a revolving credit facility totalling £36.0m 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) and replaced the Company's existing term and revolving credit facilities with Lloyds Bank plc which were fully repaid and terminated.

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.

Non-current bank loan above is stated net of unamortised issue costs of debt of £0.3m.

Independent review report to Maintel Holdings Plc

Introduction

We have been engaged by the company to review the financial information in the interim results for the six months ended 30 June 2016 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and explanatory notes.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim results, including the financial information contained therein, are the responsibility of and have been approved by the directors. The directors are responsible for preparing the interim results in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the interim results based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the interim results for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP

Chartered Accountants and Registered Auditors
London

16 September 2016

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

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