AdEPT TELECOM PLC ANNUAL REPORT AND ACCOUNTS 2012

faces not numbers

AdEPT TELECOM

We are faces not numbers

We don't treat our customers as just numbers; we focus on personal service, meeting personal needs.

We're one of the UK's leading independent telecommunications providers, offering a complete communications portfolio: fixed line calls, line rental, mobile, data connectivity products and VoIP.

Our tailored services are used by thousands of business and residential customers across the UK.

Our strategic relationships with every major network supplier in the UK are key to our service delivery.

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For more information and all the latest news, visit www.adept-telecom.co.uk

Financial highlights

- Ninth consecutive year of increased underlying EBITDA to £3.65m (2011: £3.62m)
- Underlying EBITA margin increased by 1.4% to 16.7% (2011: 15.3%)
- Excellent cash generation with free cash flow, after interest, of £2.2m (2011: £2.1m)
- Net debt reduction of £2.1m year-on-year (2011: £1.8m) to £5.3m (2011: £7.4m)
- 58% increase to profit before tax to £1.2m (2011: £0.8m)
- 123% increase to profit after tax to £0.6m (2011: £0.3m)
- 11% increase to adjusted earnings per share to 11.35p (2011: 10.25p)
- Maiden full year dividend of 0.5p per share paid to shareholders in April 2012

Operational highlights

- 38% increase to data connectivity revenues year-on-year
- 20% increase to inbound call revenue year-on-year
- 91% of revenue generated from customers taking more than one product or service (2011: 89%)
- 35% of revenue generated from customers taking three or more products (2011: 28%)
- 12% increase in ARPU as at March 2012 to £97.28 (2011: £86.71)

[1] EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
[2] EBITA – Earnings Before Interest, Tax and Amortisation
[3] ARPU – Average Revenue Per User

What we do at a glance

AdEPT Telecom is one of the UK's leading independent providers of voice and data telecommunications services

The Company provides fixed line calls, line rental, mobile, data connectivity products and VoIP to thousands of business and residential customers across the UK. AdEPT employs 48 members of staff at its offices in Tunbridge Wells, Kent.

FIXED LINE

AdEPT offers a comprehensive range of business telecom products for all sizes of business. AdEPT provides great value for money combined with award-winning customer service levels. This gives customers peace of mind and a service they can rely on.

- We support the critical communications for around 20,000 small, medium and large customers across the UK.
- From single analogue business lines to complex multi-site solutions, the AdEPT products and services are scalable.
- AdEPT has strategic relationships with every major network supplier in the UK. We supply best of breed products tailored to suit the customer requirements.

DATA CONNECTIVITY

AdEPT provides fast, low-contention, higher quality broadband, leased lines connections and MPLS networks using 21st Century Network technology. Solutions are available from 2Mb to 1Gb with a service level agreement at a surprisingly low cost.

- AdEPT partners with all the major networks across the UK, ensuring that the customer can be provided with the most appropriate and cost effective solution to meet their requirements.
- All our data solutions are scalable, so they can keep pace as business needs evolve.
- Whether it's a multi-site solution for a major UK company or an upgrade to IP telephony, AdEPT will tailor a solution.

NATIONWIDE REACH

AdEPT offers a comprehensive range of business telecom products for all sizes of business. AdEPT provides great value for money combined with award-winning service levels. This gives customers peace of mind and a service they can trust and rely on.

CUSTOMER STATS

91%
of customers take more than one product or service

68%
of Premier customers buy three products or more

46%
of revenue from Premier customers spending over £1,000 per month

12%
increase in ARPU to £97.28

INBOUND

AdEPT's 'cloud' or network-based inbound call handling solutions offer a simple and scalable way to manage inbound calls, with online access enabling customers to implement changes instantly.

- The customer can decide how they would like their calls answered, handled and directed.
- Low set up costs using network-based solutions means no additional hardware, integration or maintenance issues.
- Call queuing at network level removes strain from customer's telecoms infrastructure.
- The unique flexibility of our systems means that no matter what type of call handling solution is needed, we can deliver it.

MOBILE

AdEPT Mobile provides a wide variety of mobile solutions tailored to the specific requirements of each customer.

- AdEPT Mobile offers simple, cost effective mobile tariffs and competitively priced handsets.
- The AdEPT Mobile Team advises on mobile broadband packages for business and gives guidance on the wide range of the latest devices and networks.
- As an independent provider, AdEPT provides customers with mobile solutions from each of the major mobile networks in the UK.
- AdEPT offers the full range of the latest mobile handsets and devices, whether it's the latest BlackBerry smartphone or mobile tablet PC.

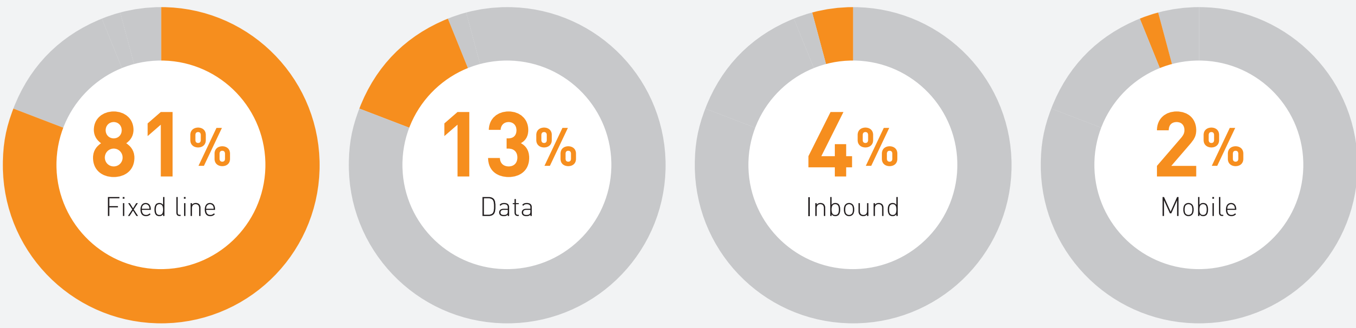
VoIP

AdEPT's VoIP for Business solution in partnership with BT provides SIP (with and without gateways) and hosted telephony, on a single network powered by BT, managed by a single web portal.

AdEPT can provide both traditional calls and line rental and VoIP and is ideally placed to handle a migration to next generation telephony.

- Customers benefit from far better functionality than conventional telephone lines.
- There is little or no capital cost, meaning an end to obsolete phone systems.
- Free calls to other VoIP for Business customers.
- The AdEPT VoIP Solutions Team is trained to handle everything from solutions architecture to physical installation and implementation.

REVENUE SHARE



How we work

We have a robust and sustainable business model that engages our expertise to drive growth and generate profit

Our business model

NETWORK PARTNERS

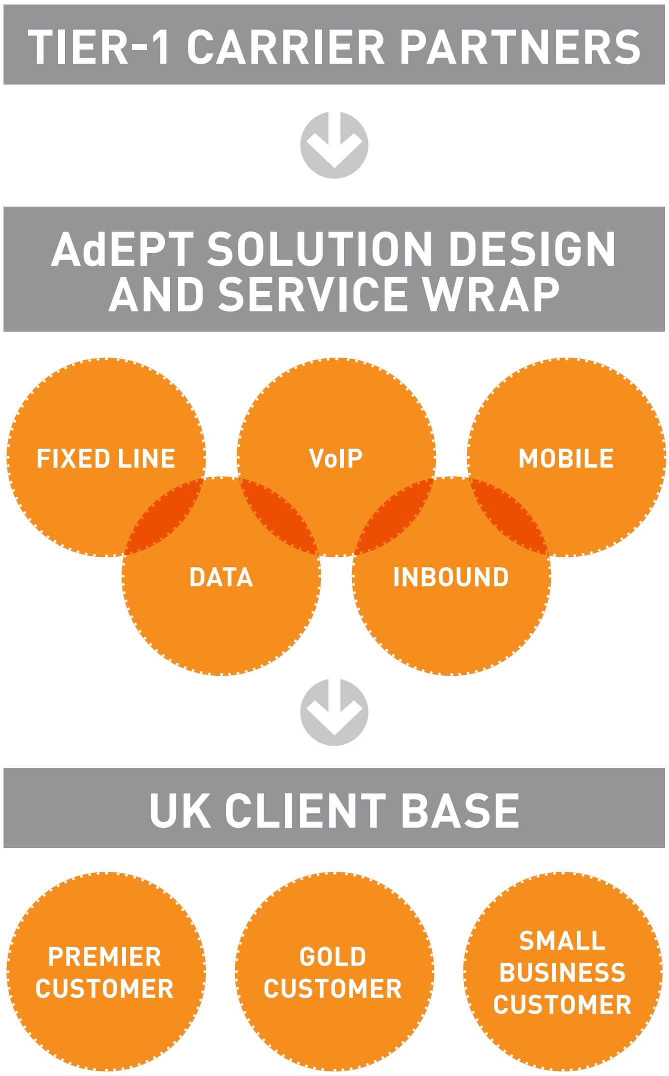
AdEPT has established relationships with all of the major UK network operators and communication suppliers, working with tier-1 carrier partners to develop products and solutions which meet the ever changing needs of customers. AdEPT's focus with its carrier partners is to develop and provide cost effective solutions with enhanced features and resilience. AdEPT selects its carrier partners on the basis of technical and financial stability, in order to manage the supply risk associated with a business critical supply.

AdEPT SOLUTION DESIGN AND SERVICE WRAP

AdEPT combines multi-product solutions from a number of carrier partners to provide bespoke solutions which are tailored to meet the specific requirements of customers. The provision of a single invoice solution for customers, combined with award-winning customer service and support, all of which is made available at a lower spend level than other larger telecommunications businesses. AdEPT provides account management for customers spending as little as £250 per month on telecommunications.

UK CLIENT BASE

Providing competitively priced communications solutions for all sizes of UK based clients spread across a wide range of business sectors. AdEPT and its sales channels work with its customer base to develop appropriate communications solutions. AdEPT Telecom is widely recognised as a multi-site, multi-product specialist, with over 700 multi-site customers taking a range of products. AdEPT is increasingly focused on Premier and Gold customers who can benefit from AdEPT's ability to provide a full communication solution.



Our performance

FINANCIAL PERFORMANCE

Net debt reduction

£2.1m

2011: £1.8m

EBITA margin

16.7%

2011: 15.3%

Gross margin

32.2%

2011: 29.8%

For the year ended 31 March 2012

Our strategy

OUR STRATEGY IS SHAPED AROUND THREE KEY AREAS

PRODUCTS

AdEPT started as a fixed line provider, but we now offer a full range of integrated communications. We upgrade and expand our range to ensure we can offer the best.

CUSTOMERS

Our business is built on customers. We make keeping our customers satisfied a priority. Our award-winning UK based customer service team provides assurance to customers.

CROSS SELLING

35% of our revenue is generated by customers taking three or more products. This is up from 28% in 2011 and we're aiming for another significant rise this year.

OUR OBJECTIVES

Expand our product range in all areas

Invest in customer retention activities

Increase our revenue from cross selling

HOW WE'LL ACHIEVE THIS

Data services will be a key area of expansion as network speeds increase. Our 'cloud' and next generation services will roll out to more customers as they become a vital feature for businesses.

We are investing significantly in retention strategies to complement our new product offerings. Customer service will always be a critical part of our business model.

Cross selling is a key area of our business and will continue to increase as unified communications becomes more vital. Our team is focused on offering packages.

NON-FINANCIAL PERFORMANCE

Customers taking more than three products

35.1%

2011: 28.4%

Direct debit penetration

69.5%

2011: 67.0%

Customer credit collection

30 days

2011: 29 days

For the year ended 31 March 2012

Chairman's statement

Roger Wilson
Non-executive Chairman

Summary

FINANCIAL HIGHLIGHTS

- EBITDA excluding non-recurring costs increased to £3.65m (2011: £3.62m)
- Underlying EBITA margin increased by 1.4% to 16.7% (2011: 15.3%)
- Net debt reduction of £2.1m year-on-year (2011: £1.8m) to £5.3m (2011: £7.4m)
- Maiden full year dividend of 0.5p per share paid to shareholders in April 2012 in the light of continued strong free cash flow

OPERATIONAL HIGHLIGHTS

- 38% increase to data revenues year-on-year
- 91% of revenue generated from customers taking more than one product or service (2011: 89%)
- 35% of revenue generated from customers taking three or more products (2011: 28%)

Review of operations

Despite difficult economic conditions I am pleased to report a ninth consecutive increase to underlying EBITDA.

The continued focus on larger customers, generally businesses of 25 to 1,000 employees, has enhanced our ability to benefit from scale efficiencies and cross selling. The AdEPT Premier Customer division, comprising the 200 largest customers spending more than £1,000 per month, has grown during the year and now accounts for approximately 46% of total revenue (2011: 39%).

Our reliance on variable monthly call charges has been reduced further during the year, replacing them with fixed monthly line rentals. The proportion of revenue derived from fixed monthly charges now represents 57% of total revenue (2011: 54%).

AdEPT's continued strong cash flow generation resulted in £2.2m of free cash flow after interest. This was used to fund a £2.1m reduction in net borrowings, to £5.3m at 31 March 2012.

New products

AdEPT was originally established as a fixed-line telecom provider but is increasingly expanding and diversifying its product range and has become one of the UK's leading communication integrators offering best of breed products from all major UK networks.

The Company has broadened its product range further during the year, particularly with regard to data connectivity, which has seen greater than 38% year-on-year revenue growth. Data services, such as MPLS networks, fibre broadband, bonded DSL, hosted and cloud telephony, have been added to the product portfolio.

The second half of the year saw the first revenues generated from hosted and SIP solutions provided by the AdEPT VoIP for Business product range. The service, powered by BT Wholesale, includes eight different ways of deploying VoIP for businesses. AdEPT VoIP for business provides SIP trunking and hosted voice inter-working on a single BT network, with dual resilience offered by two data centres in London. All VoIP services are managed via a single web portal. The VoIP products offer comprehensive solutions for every size of business: large and small sites as well as homeworkers.

Profit before tax (PBT)	Adjusted earnings per share (EPS)	EBITA margin %
58%	11%	1.4%
PBT increased by £0.4m to £1.2m	Adjusted EPS increased from 10.25p to 11.35p	EBITA margin increased by 1.4% to 16.7%

> "I am confident that the Company is in a much stronger position with its increasing ability to provide complex multi-site, multi-product solutions to larger customers."

AdEPT has had continued success with 'cloud' or network-based inbound call handling solutions. These are now being provided to a number of major customers, which has resulted in a 20% year-on-year increase in inbound call revenue.

Cross selling of products

A key strategy for the Company remains to sell more products to new and existing customers to enhance customer retention and stability. Product penetration has increased during the year; at March 2012 35% of revenue was generated from customers taking more than three or more products (2012: 28%).

In the Premier Customer division (those spending more than £1,000 per month) we have seen further improvement in product penetration. At March 2012 customers taking three or more products increased to 68% (2011: 64%).

Employees

The improved profitability this year was made possible by the continued hard work and focus of all employees at AdEPT. As a Company we are immensely proud of the track record we have created in a relatively short period of time and on behalf of the Board I would like to take this opportunity to thank all of our employees for their hard work.

AdEPT is successfully making the transition from a traditional fixed-line service provider to a complete communications integrator, supplying next generation products and data solutions, without any impact on profitability despite the recruitment of staff with new skill sets. During the year five new employees were recruited in next generation products and at 31 March 2012 20% of employees were working within the data connectivity and next generation product areas.

Shareholder benefits scheme

The AdEPT shareholder benefits scheme has continued to attract new members during the year. The scheme, which is available to all shareholders owning a minimum of 1,000 shares, provides eligible shareholders with free residential line rental worth approximately £120 per annum for as long as they remain eligible shareholders.

Post balance sheet events

On 9 May 2012 the Company signed an agreement to acquire the trade and assets of the fixed-line telecommunications division of Expanse (UK) Communications Limited. The acquisition is to be funded from operating cash flow. The Company will continue to evaluate strategic acquisitions which will add value to our shareholders.

Outlook

The improved EBITDA and net debt reduction of £2.1m was underpinned by focus on underlying profitability through improving margins on customer contracts, operational efficiencies and tight credit control. The further broadening of the product offering will ensure that AdEPT can continue to provide complete communication solutions for customers. The Board is confident that continued strong cash generation, and further reductions in the level of debt in future, will support a progressive dividend policy.

The business focus for the coming year remains on continued development of organic sales, maintaining profitability and cash flow generation, which will be used to reduce net borrowings. We will therefore continue to grow our organic sales channels, invest in new products and complement this with continued investment in retention activities to retain customers.

Roger Wilson
Non-executive Chairman
3 July 2012

Finance and business review

John Swaite
Finance director

SUMMARY

- Despite top line pressure the Company has maintained its EBITDA. This has been achieved through management of wholesale supply contracts and continued operational efficiency
- Group revenue reduction of 8%, driven by call volume reductions from lower economic activity, partially offset by revenue growth in data and mobile division
- The larger customer focus has resulted in a 12% increase in average customer monthly spend year-on-year. At March 2012 the largest 200 customers accounted for 40% of total revenue

Net debt

£2.1m

Net debt reduced to £5.3m

Cash conversion

80%

80% of reported EBITA converted to cash from operating activities

Interest

34%

Interest costs reduced to £0.6m

Multi-site specialist

4,000+

Over 4,000 sites and 700+ multi-site customers

Revenue

Revenue by product area

Group revenue decreased by 7.7% to £21.9m (2011: £23.7m):

- Traditional fixed line revenues reduced to £17.8m (2011: £20.1m), with this reduction driven by the impact of regulation reducing mobile call rates combined with call volume reductions which is a reflection of the continuing uncertain economic environment. The Company's reliance on call revenues has been reduced further with call revenue providing only 38.2% of total revenue in March 2012 (2011: 42.1%).
- Data and broadband product revenues were up 40.6% to £2.0m (2011: £1.4m), with increases to the number of data circuits and connections in place. This significant increase reflects growth from some earlier contract wins and the launch of several new products including MPLS, networks, bonded DSL and fibre broadband.
- Inbound and cloud-based call revenue increased by 19.8% during the year to £1.0m (2011: £0.8m). This arises from network based solutions provided to premier customers during the year.
- The second half of the year ended March 2012 saw the first revenues generated from hosted and SIP solutions provided by AdEPT VoIP for Business, albeit at a relatively low level.

During the year AdEPT has continued its diversification from a traditional fixed line service provider towards next generation products. Total revenue generated from data, mobile, inbound and other services represented 18.6% of total revenue in March 2012 (2011: 15.1%).

Fixed monthly revenue streams

The Company continues to focus on products delivering fixed monthly revenue streams to reduce revenue volatility. The proportion of revenue, which is fixed monthly values, increased to 57.0% of total revenue for the year ended March 2012 (2011: 53.9%) following the continued focus on multi-product sales (calls, line rental and data products) and the enhancement of the data connectivity product portfolio.

Cross selling

The proportion of revenue generated from customers taking more than one product or service has increased to 90.5% at March 2012 (2011: 89.3%) which should provide a more stable future revenue stream.

The proportion of higher spending customers (recurring revenues of more than £1,000 per month) taking three or more products increased to 68.3% at March 2012 (2011: 63.7%) which is driven by the revenue growth in next generation and data connectivity products.

Average spend per customer

The Company is continuing to focus on larger customers and AdEPT's largest 200 customers account for approximately one-third of March 2012 revenue with the top ten customers accounting for 15.0% of total revenue.

Average customer monthly spend for customers increased year-on-year by 12.2% to £97.28 in March 2012 reflecting the Company's success in gaining contracts with an increasing proportion of higher spending multi-product and multi-site business customers.

Gross margin

The regulatory impact of reduced mobile termination rates has resulted in revenue pressure for traditional fixed line services; however, gross margins have been maintained at an absolute level through management of wholesale supply contracts. Gross margins for data products were enhanced during the year through focus on underlying profitability of customer contracts combined with the negotiation of more competitive wholesale supply contracts. Revenues and gross margins generated from other revenue streams have reduced during the year due to competitive price pressure and the impact of regulatory changes.

As the product mix has moved towards the relative lower margin data and broadband revenue streams, this has provided downward pressure on total gross margins. Future gross margin pressure is anticipated as our product mix moves increasingly towards the relative lower margin line rental, data connectivity and broadband revenue streams.

EBITDA

EBITDA has increased for the ninth consecutive year since AdEPT's inception in 2003 despite top line pressure. The Company has focused on the underlying profitability of customers and revenue streams; as a result revenue reduction has been absorbed by gross margin improvement and the operational efficiencies and costs savings from managing larger customers.

Finance costs

Total interest costs have reduced by 34.0% to £606,882 arising from a reduced level of net borrowings combined with the full year impact of the renewal of the banking facilities during the previous financial year on more favourable terms. Finance costs for the year ended 31 March 2012 include £31,198 in relation to the fair value of the interest rate swap as required by IAS 39 'Financial Instruments'. This is not a reflection of an increase in the cost of borrowing as the interest rate swap provides a fixed rate of interest on borrowings.

Dependable inbound call management

AdEPT Telecom is the telecommunications provider to one of the UK leading independent energy suppliers. The customer is highly dependent upon inbound traffic management to ensure business continuity. AdEPT Telecom provides the customer with a complex network-based inbound call management solution.

The customer call centre receives large volumes of inbound calls with high daily volume fluctuations. Therefore management of call volumes when at maximum capacity is vital. The customer is under pressure to maintain a highly efficient and cost effective telecoms solution.

The AdEPT Telecom solutions

- Non-geographic 21st Century Network inbound call centres solution – the ability to manage fluctuating call volumes
- Network-based functionality controlled by the customer, providing:
  - Call prioritisation
  - Call queuing
  - Disaster recovery
  - Real-time management information
  - Additional revenue stream
- Out of hours support 24/7
- Customer migration onto 0843 platform to provide cost savings
- Named account and project managers providing specialist technical support to the customer

AdEPT Telecom provides complex 'cloud' and network-based solutions to a number of customer call centres across a wide range of sectors including insurance, holidays, legal advice, energy and telesales.

> "AdEPT has continued to generate consistently strong free cash flow, resulting in a £2.1m reduction to net debt and the payment of the maiden dividend to shareholders in April 2012."

Profit before tax

This year the Company has recorded an £437,107 improvement to profit before tax with a reported £1,189,505 (2011: £752,399). This arises from gross margin improvement and operational efficiency combined with the reduction in finance costs arising from the significant reduction to net borrowings during the year.

Earnings per share

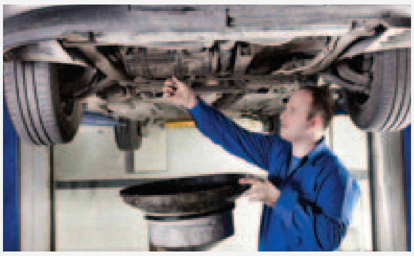
Adjusted earnings per share, based on retained earnings adding back amortisation and non-recurring costs (see Note 22), has increased by 10.7% to 11.35p per share (2011: 10.25p).

Share capital reduction

On 20 July 2011 the Company received court approval for a conversion of the share premium account (of £7,965,381) into a distributable reserve. The conversion had no effect on the number of ordinary shares or the rights attached to the ordinary shares and the market price of the shares has not been adjusted as a result. The share premium account conversion was approved in order to maximise the capital structure of the Company by creating distributable reserves to facilitate the payment of dividends.

Cost effective scalable solutions

AdEPT Telecom provides a multi-site voice and data communications solution to one of the UK's leading automotive servicing and repair centre chains, with dedicated account management via a single management point. The customer has more than 200 sites across the UK and telecommunications is considered to be a business-critical supply. The solution is fully scalable and flexible to provide future expansion as required.



The customer, as part of a larger group, is under continuous pressure to make savings and increase efficiency and value for money. AdEPT Telecom provides cost effective telecoms solutions and estate management solutions to ensure that the customer maintains an efficient telecoms platform over the life of the contract.

The AdEPT Telecom solutions

- Provision of ISDN and PSTN lines at lower price point with no disruption or changes to user behaviour
- Bulk migration of lines for more than 200 sites managed by the Project Team
- Dedicated account management with single point of contact
- Efficient and cost effective installation and set up of telecom services at new sites
- Dedicated account manager providing:
  - Specialist technical and fault resolution support to the customer
  - Estate management to ensure an efficient solution is maintained

AdEPT Telecom has over 700 multi-site customers covering over 4,000 sites and recognises that each organisation is distinct and unique. AdEPT provides complex multi-product solutions to meet each customer's individual requirements.

Dividend per share

On the back of strong cash flow generation a maiden dividend of 0.5p per share was proposed at the interim date, which was paid to shareholders on 20 April 2012. The dividend absorbed £105,337 of shareholder funds (2011: £Nil). The Board constantly monitors shareholder value and is confident that the continued strong cash generation, and further reductions in the level of debt in future, will support a progressive dividend policy.

Cash flow

Cash conversion

The Company benefits from an excellent cash generating operating model, with EBITA turning into cash. Reported EBITA turned into net cash from operating activities is 80.2% (2011: 92.2%) which is lower than the comparative period due to higher corporation tax payment for the year ended 31 March 2011. There was a net working capital outflow of £0.7m during the year partly arising from the reduction in trade payables following the reduction in direct costs due to top line reductions.

Strong management of credit risk

The Company has continued to manage its credit risk in the current economic climate and the collections of trade receivables have been maintained during the year with customer collection periods of 31 days (2011: 30 days).

Increase in cash balances

After servicing its debt the Company achieved an increase in cash and cash equivalents of £0.5m during the year.

Capital expenditure

The Company has low capital requirements and therefore expenditure on tangible assets is low at 0.1% of revenue (2011: 0.1%). Intangible asset additions were negligible during the year (2011: £0.1m).

Net debt

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow, which is supported by £5.5m reduction to net borrowings within the last three years.

As a result of the Company's focus on underlying profitability and cash conversion, free cash flow after bank interest of £2.2m was generated during the year ended March 2012, with £2.1m being applied to net debt reduction during the year. Net debt, which comprises cash balances and bank borrowings, has therefore improved to £5.3m (2011: £7.4m).

The Company's available banking facilities are described in Note 23 to the financial statements. The Company continues to manage its exposure to interest rate risks arising from financing activities through interest rate swap contracts.

Resilient business model

The Board believes that AdEPT operates a resilient business model and has a strong customer proposition which it is believed will present opportunities in the coming year. These features include:

- highly cash generative with strong underlying profitability;
- supplies are nearly all business critical – an essential part of the customer's daily operational requirements;
- highly automated systems provides sector leading labour costs : turnover productivity;
- low capital investment requirements relative to turnover;
- continued focus on broadening the product range, particularly with regard to data connectivity;
- customers are spread across all industries; the top 200 customers account for approximately 40.0% of revenues;
- trade suppliers and partners are all top tier suppliers, providing confidence in the continuity and reliability of service to customers;
- 70.0% of the Company's customers pay by monthly direct debit, reducing the Company's credit risk;
- the Company has agreed banking facilities through to September 2013; and
- with the level of cash generation forecast, the Board expects the Company's net borrowing position to further improve over the next twelve months.

John Swaite
Finance director
3 July 2012

Board of directors

Roger Wilson

Non-executive Chairman (BA Hons, DMS)
Roger has worked in the telecom industry for the past 20 years. He was the first managing director for Telewest Communications' residential consumer business in the UK from January 1997 until March 1998. Roger spent three years between June 1998 and April 2001 in Poland establishing a telecom business for American investors. Moreover, he was managing director of ECTA, the European Competitive Telecommunications Association, until January 2006. Roger is a member of the Company's remuneration and audit committees.

Christopher Fishwick

Non-executive Deputy Chairman (FRSA)
Chris worked in the City of London for over 25 years, starting his career as a member of the London Stock Exchange and, latterly, as chief executive of Aberdeen Asset Managers Limited. He brings extensive experience of corporate life, having been on the boards of more than 15 quoted companies covering the sectors of property, insurance, technology, asset management and smaller companies. He has spent the last eight years as a venture capitalist investing in smaller quoted and unquoted companies. Chris is a member of the Company's remuneration and audit committees.

Ian Fishwick

Chief Executive (MBA, ACMA)
Ian has been a chief executive or managing director in the Telecoms industry for 21 years and is the original founder of AdEPT Telecom plc. In that time he has completed 30 telecoms mergers and acquisitions. Prior to founding AdEPT Telecom in February 2003, from 1983 to 1995 Ian rose through the ranks at Marconi Secure Systems including two years as financial controller and five years as managing director. From 1996 to 2000 Ian was a managing director at Telewest Communications, managing Telewest North West, Telewest London and South East and Cable London. Ian was managing director of World Access (UK) Limited from 2000 to 2001.

John Swaite

Finance director (BA Hons, ACA)
John joined AdEPT Telecom in March 2008 as Group Financial Controller and was promoted to Finance director and the Board in January 2009. Prior to joining AdEPT, John spent more than nine years with one of the UK's leading accounting firms, Crowe Clark Whitehill LLP (CCW). In his role as senior corporate finance manager at CCW, John was responsible for all aspects of financial due diligence and transaction support on mergers, acquisitions, flotations and subsequent public offerings with transaction values up to £120m.

Dusko Lukic

Non-executive director
Dusko has worked for over 20 years as an institutional stockbroker covering UK and Continental European equity markets with City firms such as Wood Mackenzie, Salomon Brothers, Schroder Securities and, latterly, at Cazenove. At Cazenove, Dusko was the director responsible for Pan European equity sales to German institutions. During 2004 he augmented his stock market experience by working at Eurovestech PLC, an AIM-quoted private equity investment company and, since April 2005, he has been employed by Millpath Limited which acts as investment adviser to Draganfly Investments Ltd, an AIM-quoted investment company. Dusko is a member of the Company's remuneration and audit committees.

Amanda Woodruffe

Operations director
Amanda has held a wide variety of customer operations roles for major companies. At BT she was a customer service troubleshooter, winning the Chairman's award for Quality. Amanda worked with Ian Fishwick on the cable mergers of Kent, Essex and London before taking on a national role at Telewest. She was a key member of the team that set up the discount airlines Go and Hapag Lloyd Express. Her consultancy assignments have been worldwide for companies such as Sonera (mobile) and BoStream (broadband in Sweden). She also worked as a consultant at EdExcel following the highly published A-level fiasco in 2002. EdExcel went on to become 'best examination board' in 2003.

Joe Murphy

Sales director
Joe joined AdEPT in February 2005 and has been instrumental in the development of one of the UK's largest telecoms indirect sales channels. Joe joined AdEPT from Eescape Ltd where he managed key customer accounts including Samsung and MFI. Prior to this he spent four years with BT Wholesale, where he was account manager within the UK service providers division. Joe was appointed Sales director in May 2009 and joined the Board in July 2010.

Directors' report

For the year ended 31 March 2012

The directors present their report and the financial statements for the year ended 31 March 2012.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the 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 financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 Company and of the profit or loss of the Company for that period. 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 applicable accounting standards have been followed, 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 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.

They are further responsible for ensuring that the report of the directors and other information included in the annual report and financial statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the AdEPT Telecom plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Provision of information to auditors

So far as each of the directors is aware at the time the report was approved:

- there was no relevant audit information of which the Company's auditors were unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Principal activities and review of business

The principal activity of the Company is the provision of voice and data communication services to both domestic and business customers. A review of the business is contained in the chairman's statement on pages 6 and 7.

Results and dividends

The profit for the year, after taxation, amounted to £587,190 (2011: £263,500).

An interim dividend of £105,338 (2011: £Nil) was paid to ordinary shareholders during the year and the directors do not recommend the payment of a final dividend.

Political and charitable contributions

During the year the Company made charitable donations of £2,449 (2011: £3,412). No political donations were made during the current or previous financial year.

Company's policy for payment of creditors

The Company does not follow any code or statement on payment practice, but the policy of the Company is to abide by such payment terms as are agreed with suppliers within the terms of supply. By 31 March 2012 there were 44 days' purchases outstanding (2011: 49 days'), calculated on a ratio of trade creditors to total purchases.

Substantial interests

At 31 March 2012 there were the following substantial interests (3% or more) in the Company's ordinary share capital.

	% holdings in ordinary share capital 31 March 2012
Greenwood Investments Limited	16.0
Croyde Limited	13.6
Fiske Private Clients	9.7
Codium Limited	9.3
Oathall Plc	5.5
Ian Fishwick	5.4
Brewin Dolphin	4.2
Octopus Investments	3.7
Roger Wilson	3.4
Patricia Wilson	3.4
Bittium Limited	2.2

Croyde Limited, Codium Limited and Bittium Limited are all controlled by J F Worthytrust Limited which holds all the shares in those companies under a nominee agreement to the order of Christopher Fishwick, Ian Fishwick's brother.

Key performance indicators

A review of Key Performance Indicators is included in the financial and business review.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Company's long-term performance and could cause actual results to differ materially from expected results.

Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. External funding facilities are managed to ensure that both short-term and longer-term funding is available to provide short-term flexibility whilst providing sufficient funding to the Company's forecast working capital requirements.

Credit risk

The Company extends credit to customers of various durations depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer proves unable to meet payments when they fall due, the Company will suffer adverse consequences. To manage this, the Company continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, 70% of our customer receipts are by monthly direct debit. The risk is further reduced by the customer base being spread across all industry and service sectors. The top ten customers account for approximately 15% of revenues.

Competitor risk

The Company operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and development to our own product range. This could render our products and services out-of-date and could result in loss of market share. To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle.

Competitor risk also manifests itself in price pressures which are usually experienced in more mature markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. The Company therefore monitors market prices on an ongoing basis.

Acquisition integration execution

The Company has set out that its strategy includes the acquisition of businesses where they are earnings enhancing. The Board acknowledges that there is a risk of operational disturbance in the course of integrating the acquired businesses with existing operations. The Company mitigates this risk by careful planning and rigorous due diligence.

Directors' report continued

For the year ended 31 March 2012

Employee involvement
The Company aims to improve the performance of the organisation through the development of its employees. Their involvement is encouraged by means of team working, team briefings, consultative committees and working parties.

The Company has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £3,074 (2011: £5,830).

Disabled employees
The Company is committed to equality of employment and its policies reflect a disregard of factors such as disability in the selection and development of employees.

Auditors
The auditors, Crowe Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

By order of the Board

Ian Fishwick
Director
3 July 2012

Corporate governance

The Board recognises the importance of sound corporate governance and intends to comply insofar as practicable with the Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies. The guidelines recommend that the AIM company should have at least two independent non-executive directors.

The Board considers that two of the existing non-executive directors, Roger Wilson and Chris Fishwick, are not independent for the purposes of these guidelines due to their level of shareholdings in the Company and, therefore, that Dusko Lukic is the only independent non-executive director.

The Board

The Board comprises four executive directors and three non-executive directors. The Board meets regularly throughout the year and has a formal schedule of matters specifically reserved for its decision. This schedule is included in the corporate governance document available on the Company's website at www.adept-telecom.co.uk under the investor relations section.

If required, the directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of the advice will be reimbursed by the Company. The Company secretary's services are available to all members of the Board.

Board appointments

The Company does not have a nomination committee which is not in compliance with the Combined Code. Any decision to appoint further directors to the Board is a decision taken by the whole Board and, where necessary, new Board members will be provided with appropriate training in respect of their role and responsibilities as a public company director.

Audit committee

An audit committee, consisting of Roger Wilson, Chris Fishwick and Dusko Lukic, operated throughout the year. The audit committee determines the application of the financial reporting and internal control and risk management procedures and the scope, quality and results of the external audit.

Remuneration committee

A remuneration committee, consisting of Roger Wilson, Chris Fishwick and Dusko Lukic, operated throughout the year. It reviews the performance of the executive directors and considers bonus and share option schemes. None of the executive directors take part in discussions concerning their remuneration.

Meeting attendance

Details of the attendance of individual members at meetings during the year are shown in the table below:

	Management board meetings	Board meetings	Audit committee	Remuneration committee	Other meetings	Total attendance
R Wilson	1	6	1	2	2	12
C Fishwick	39	6	1	2	1	49
D Lukic	—	6	1	2	1	10
I Fishwick	42	6	—	—	2	50
A Woodruffe	42	6	—	—	2	50
J Swaite	42	6	1	—	2	51
J Murphy	41	6	—	—	2	49

Going concern

Based on the normal business planning and control procedures the directors have a reasonable expectation that the Company 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 accounts.

Relations with shareholders

The Company has a regular dialogue with institutional shareholders and communication with shareholders is given a high priority. The Board welcomes the attendance of individual shareholders at general meetings and the opportunity to address any questions they may have. The notice of the annual general meeting will be sent to shareholders at least 23 days before the meeting. The proxies for and against each resolution are announced at the meetings. Shareholders are encouraged to view the Company's website at www.adept-telecom.co.uk which includes links to the Company share price, formal announcements, corporate governance and financial statements.

Corporate governance continued

Internal control and risk assessment

The directors are responsible for risk assessment and systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key features of the Company's system of internal control are:

- a management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the Board. Towards the end of each financial year, detailed budgets are prepared for the following year. Re-forecasts are prepared on a regular basis during the year, for example reflecting an additional acquisition. The actual results are compared to budget and/or re-forecasts as appropriate;
- a regular review of staff skills, identifying and providing training;
- a regular review of operational performance by the executive directors, including sales and customer service;
- appraisal and authorisation of capital expenditure;
- approval of significant contracts; and
- review of the risks faced by the Company.

Ian Fishwick
Director
3 July 2012

Independent auditors' report

To the shareholders of AdEPT Telecom plc

We have audited the financial statements of AdEPT Telecom plc for the year ended 31 March 2012 which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and related Notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

We read all the information in the directors' report, chairman's statement, financial and business review and corporate governance statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of the profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us;
- the Company financial statements are not in agreement with the accounting records and returns;
- 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.

Keith Newman
Senior Statutory Auditor
For and on behalf of Crowe Clark Whitehill LLP
Statutory auditor
Maidstone
3 July 2012

Statement of comprehensive income

For the year ended 31 March 2012

	Note	2012 £'000	As restated 2011 £'000
Revenue	4	**21,913**	23,734
Cost of sales		**(14,851)**	(16,665)
Gross profit		**7,062**	7,069
Administrative expenses		**(5,264)**	(5,397)
Operating profit		**1,798**	1,672
Total operating profit – analysed:			
Operating profit before non-recurring costs, depreciation and amortisation		**3,651**	3,624
Non-recurring costs		**—**	(256)
Share-based payments		**(21)**	(23)
Depreciation of tangible fixed assets		**(28)**	(53)
Impairment of intangible assets		**(116)**	(137)
Amortisation of intangible fixed assets		**(1,688)**	(1,483)
Total operating profit		**1,798**	1,672
Finance costs	7	**(608)**	(920)
Profit before income tax		**1,190**	752
Income tax expense	10	**(603)**	(489)
Profit for the year		**587**	263
Other comprehensive income		**—**	—
Total comprehensive income for the year		**587**	263
Total comprehensive income attributable to:			
Equity holders		**587**	263
Earnings per share:			
Basic earnings	24	**2.79p**	1.25p
Diluted earnings	24	**2.42p**	1.09p

All amounts relate to continuing operations. The notes on pages 24 to 37 form part of these financial statements.

Gross profit has been restated for the year ended 31 March 2011. Third party commissions payable of £1,441,486 have been reclassified as cost of sales as they are considered to be directly associated with the revenue generated.

Statement of financial position

As at 31 March 2012

	Note	31 March 2012 £'000	31 March 2011 £'000
Assets			
Non-current assets			
Intangible assets	12	15,347	17,054
Property, plant and equipment	13	39	50
Deferred income tax	14	128	354
		15,514	17,458
Current assets			
Inventories	15	12	—
Trade and other receivables	16	2,864	2,758
Cash and cash equivalents		1,869	1,361
		4,745	4,119
Total assets		20,259	21,577
Current liabilities			
Trade and other payables	17	3,473	3,957
Income tax		361	225
Short-term borrowings		1,206	1,456
		5,040	5,638
Non-current liabilities			
Long-term borrowings	18	6,001	7,270
Provisions for liabilities and charges		137	106
Total liabilities		11,178	13,014
Net assets		9,081	8,563
Equity attributable to equity holders			
Share capital	19	2,107	2,107
Share premium		—	7,965
Retained earnings		6,974	(1,509)
Total equity		9,081	8,563

The financial statements were approved and authorised for issue by the Board on 3 July 2012 and signed on its behalf.

Ian Fishwick
Director

The notes on pages 24 to 37 form part of these financial statements.

Registered number 4682431

Statement of changes in equity

For the year ended 31 March 2012

	Attributable to equity holders				
	Share capital £'000	Share premium £'000	Share capital to be issued £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2010	2,107	7,965	101	(1,902)	8,271
Profit for the year	—	—	—	263	263
Deferred tax asset adjustment	—	—	—	6	6
Share-based payments	—	—	23	—	23
Net income/(expense) recognised directly in equity	2,107	7,965	124	(1,633)	8,563
Equity at 1 April 2011	2,107	7,965	124	(1,633)	8,563
Profit for the year	—	—	—	587	587
Share capital restructuring	—	(7,965)	—	7,965	—
Dividend	—	—	—	(105)	(105)
Deferred tax asset adjustment	—	—	—	15	15
Share-based payments	—	—	21	—	21
Net income recognised directly in equity	2,107	—	145	6,829	9,081
Equity at 31 March 2012	**2,107**	**—**	**145**	**6,829**	**9,081**

The notes on pages 24 to 37 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2012

	2012 £'000	2011 £'000
Cash flows from operating activities		
Profit before income tax	1,190	752
Depreciation and amortisation	1,832	1,673
Share-based payments	21	23
Loss on sale of fixed assets	1	—
Net finance costs	608	920
Operating cash flows before movements in working capital	3,652	3,368
(Increase)/decrease in trade and other receivables	(199)	29
Decrease in trade and other payables	(567)	(368)
Cash generated from operations	2,886	3,029
Income taxes paid	(224)	(61)
Net cash from operating activities	2,662	2,968
Cash flows from investing activities		
Interest paid	(496)	(878)
Purchase of intangible assets	(97)	(11)
Purchase of property, plant and equipment	(18)	(31)
Net cash used in investing activities	(611)	(920)
Cash flows from financing activities		
Repayment of borrowings	(1,543)	(1,886)
Increase of bank loan	—	314
Net cash from financing activities	(1,543)	(1,572)
Net increase in cash and cash equivalents	508	476
Cash and cash equivalents at beginning of year	1,361	885
Cash and cash equivalents at end of year	1,869	1,361
Cash and cash equivalents:		
Cash at bank and in hand	1,869	1,361
Bank overdrafts	—	—
Cash and cash equivalents	1,869	1,361

The notes on pages 24 to 37 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2012

1. Nature of operations and general information

AdEPT Telecom plc is one of the UK's leading independent providers of voice and data telecommunication services with award-winning customer service. The Company is focused on delivering a complete telecommunications service for small and medium sized business customers with a targeted product range including landline calls, line rental, broadband, mobile and data connectivity services.

AdEPT Telecom plc is incorporated under the Companies Act, domiciled in the UK and the registered office is located at One London Wall, London EC2Y 5AB. The Company's shares are listed on AIM of the London Stock Exchange.

2. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable IFRS as adopted by the EU, as issued by the International Accounting Standards Board.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The directors have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' which requires the reasons for this decision to be explained. The directors regard the going concern basis as remaining appropriate as the Company has adequate resources to continue in operational existence for the foreseeable future based upon the Company's forecasts. The Company has adequate financing arrangements which can be utilised by the Company as required. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Certain new standards, amendments and interpretations of existing standards that have been published and which are effective for the Company's accounting periods beginning on or after 1 April 2011 and which are applicable to the Company, but which have not been adopted early, are:

- IFRIC 14 (Amendment) "Prepayments of a Minimum Funding Requirement" effective January 2011
- Revised IAS 24 "Related Party Disclosures" (issued 4 November 2009) effective January 2011
- IFRS 7 Amendments to "Financial Instruments Disclosures" effective January 2011
- IFRS 1 Amendments to "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" effective July 2011
- IAS 12 Amendments to "Deferred Tax: Recovery of Underlying Assets" effective January 2012
- IAS 1 (Amendment) "Presentation of Items of Other Comprehensive Income" effective July 2012
- IAS 19 (Amendment) "Employee Benefits" effective January 2013
- IAS 27 "Separate Financial Statements" effective January 2013
- IAS 28 "Investments in Associates and Joint Ventures" effective January 2013
- IFRS 10 "Consolidated Financial Statements" effective January 2013
- IFRS 11 "Joint Arrangements" effective January 2013
- IFRS 12 "Disclosure of Interests in Other Entities" effective January 2013
- IFRS 13 "Fair Value Measurement" effective January 2013
- IFRS 9 "Financial Instruments" effective January 2013
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" effective January 2013

The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Company's profit for the year or equity. Application of these standards may result in some changes in presentation of information within the Company's financial statements.

The financial statements are presented in sterling which is the Company's functional and presentation currency. The figures shown in the financial statements are rounded to the nearest thousand pounds.

Segmental reporting

The directors have considered the requirements of IFRS 8 "Operating Segments" and have concluded that the Company has two segments. For further information see Note 4 of the financial statements.

Revenue

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

Revenue from calls, which excludes value added tax and trade discounts, is recognised in the income statement at the time the call is made. Calls made in the year, but not billed by year end, are accrued within receivables as accrued income.

Revenue from line rental is recognised in the month that the charge relates to, commencing with a full month's charge in the month of connection. Revenue and related costs from the sales of mobile handsets are recognised at the date of supply or connection.

Revenue arising from the provision of internet and other services is recognised evenly over the periods in which the service is provided to the customer.

Connection commissions received from mobile network operators are recognised when the customer is connected to the mobile network after providing for expected future clawbacks.

The whole of the revenue is attributable to the provision of voice and data telecommunication services to both residential and business customers. All revenue arose within the United Kingdom.

2. Accounting policies continued

Intangible fixed assets acquired as part of a business combination and amortisation

In accordance with IFRS 3 "Business Combinations", an intangible asset acquired in a business combination is deemed to have a cost to the Company of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Company.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Impairment reviews are conducted annually from the first anniversary following acquisition.

The intangible asset 'customer base' is amortised to the income statement over its estimated economic life on a reducing balance basis. The average useful economic life of all the customer bases has been estimated at 15 years (2011: 17 years).

Other intangible assets

Also included within intangible fixed assets are the development costs of the Company's billing and customer management system plus an individual licence. These other intangible assets are stated at cost, less amortisation and any provision for impairment. Amortisation is provided at rates calculated to write off the cost, less estimated residual value of each intangible asset, over its expected useful life on the following basis:

Customer management system	– Three years straight line
Other licences	– Contract licence period

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value of each asset, over its expected useful life on the following basis:

Short-term leasehold improvements	– The shorter of five years and the remaining period of the lease
Fixtures and fittings	– Three years straight line
Office equipment	– Three years straight line
Computer software	– Three years straight line

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease or hire purchase obligation is treated in the balance sheet as a liability.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals under operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss on a straight line basis, even if payments are not made on such a basis.

Pensions

The Company contributes to personal pension plans. The amount charged to the income statement in respect of pension costs is the contribution payable in the year.

Capital instruments

The costs incurred directly in connection with the issue of debt instruments are charged to the income statement on a straight line basis over the life of the debt instrument.

Income tax

Income tax is the tax currently payable based on taxable profit for the year.

Deferred income tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred income tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred income tax liabilities are provided in full, with no discounting. Deferred income tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred income tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred income tax assets or liabilities are recognised as a component of income tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred income tax is also charged or credited directly to equity.

Notes to the financial statements continued

For the year ended 31 March 2012

2. Accounting policies continued

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date, the cumulative expense (as above) is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Non-recurring items

Material and non-recurring items of income and expense are separated out in the income statement. Examples of items which may give rise to disclosure as non-recurring items include costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses and asset impairments. Non-recurring costs include the current year expense charged to the income statement in relation to restructuring which has taken place since the year end to derive the underlying profitability of the Group and Company.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

The Company makes use of derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value, i.e. cost. Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement as a component of financing income or cost.

The fair value of the derivative financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument at the balance sheet date, taking into account current interest rates and the current creditworthiness of the instrument counterparties.

Capital

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Notes 18 and 25, cash and cash equivalents, and equity attributable to equity holders, comprising issued capital, reserves and retained earnings.

Borrowings and borrowing costs

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed to the income statement as incurred with the exception of arrangement fees which are deducted from the related liability and are released over the term of the related liability in accordance with IAS 39.

3. Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year, are discussed below.

Key sources of estimation uncertainty are:

- measuring the fair value of customer bases on acquisition;
- subsequent impairment of customer bases; and
- receivables.

3. Critical accounting estimates and judgements continued

Impairment of intangible assets
The Company determines whether intangible assets are impaired on at least an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the intangible value is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The main estimates used to measure the fair value of the customer bases on acquisition and the conduct the impairment review are:

- the churn rate (turnover of customers);
- discount rate; and
- margins.

Churn rates are based upon actual historical churn rates.

The discount rate used to discount the cash flows is based upon the Company's Weighted Average Cost of Capital (WACC), which is the recommended discount rate suggested by International Financial Reporting Standards and is a calculated figure.

Margins are based upon actual margins achieved in previous years. The actual outcomes have been materially equivalent which is supported by the relatively low impairment charges over the past couple of years.

More details including carrying values are included in Note 12.

Receivables
Debts are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain. Further information on the receivables allowance account is given in Note 16.

4. Segmental information

IFRS 8 "Operating Segments" require identification on the basis of internal reporting about components of the Company that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Board. The Board reviews the Company's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services and data, mobile and other services which are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and EBITDA.

	Year ended 31 March 2012				As restated Year ended 31 March 2011			
	Fixed line services	Data, mobile and other services	Central costs	Total	Fixed line services	Data, mobile and other services	Central costs	Total
Revenue	17,828	4,085	—	21,913	20,145	3,589	—	23,734
Gross profit	5,735	1,327	—	7,062	5,705	1,364	—	7,069
Gross margin %	32.2%	32.5%	—	32.2%	28.3%	38.0%	—	29.8%
EBITDA	3,058	593	—	3,651	2,919	705	—	3,624
EBITDA %	17.2%	14.5%	—	16.7%	14.5%	19.6%	—	15.3%
Amortisation	(1,804)	—	—	(1,804)	(1,620)	—	—	(1,620)
Depreciation	—	—	(28)	(28)	—	—	(53)	(53)
Exceptional operating costs	—	—	—	—	—	—	(256)	(256)
Share-based payments	—	—	(21)	(21)	—	—	(23)	(23)
Operating profit/(loss)	1,254	593	(49)	1,798	1,299	705	(332)	1,672
Finance costs			(608)	(608)	—	—	(920)	(920)
Income tax			(603)	(603)	—	—	(489)	(489)
Profit/(loss) after tax				587				263

The assets and liabilities relating to the above segments have not been disclosed as they are not separately identifiable and are not used by the chief operating decision maker to allocate resources. All segments are in the UK and all revenue relates to the UK.

Transactions with the largest customer of the Company are less than 10% of total turnover and do not require disclosure for either 2011 or 2012.

Notes to the financial statements continued

For the year ended 31 March 2012

5. Operating profit

The operating profit is stated after charging:

	2012 £'000	2011 £'000
Amortisation of customer base, billing system and licence	1,804	1,620
Depreciation of tangible fixed assets:		
– owned by the Company	28	53
Share option expense	21	23
Minimum operating lease payments:		
– land and buildings	174	171
– motor vehicles and other equipment	38	36

Included within the share option expense for the year is £16,430 relating to the warrant instrument issued to Barclays Bank plc; see Note 17.

6. Auditors' remuneration

	2012 £'000	2011 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	30	30
Fees payable to the Company's auditors and their associates in respect of:		
– other services relating to taxation	5	5

7. Finance costs

	2012 £'000	2011 £'000
On bank loans and overdrafts	498	702
Bank fees	79	112
Other interest payable	31	106
	608	920

Included within interest is a charge of £31,198 which relates to the movement in the fair value of the interest rate swap liability as calculated in accordance with IAS 39.

8. Employee costs

Staff costs, including directors' remuneration, were as follows:

	2012 £'000	2011 £'000
Wages and salaries	1,729	1,923
Social security costs	203	200
Share option expense	5	3
Other pension costs	14	14
	1,951	2,140

The average monthly number of employees, including the directors, during the year was as follows:

	2012 Number	2011 Number
Non-executive directors	3	3
Administrative staff	43	52
	46	55

Key personnel

The directors are considered to be the key management personnel of the Company, having authority and responsibility for planning, directing and controlling the activities of the Company.

9. Directors' emoluments

	Short-term employee benefits			Post-employment benefits		
	Salary and fees paid or receivable £	Bonus paid or receivable £	Other benefits £	Pension contributions £	**Total 2012 £**	Total 2011 £
R Wilson	45,000	—	1,770	—	**46,770**	46,459
C Fishwick	14,489	—	—	—	**14,489**	15,000
D Lukic	15,000	—	—	—	**15,000**	15,000
I Fishwick	207,050	29,750	4,124	13,971	**254,895**	223,960
A Woodruffe	135,020	18,490	1,152	—	**154,662**	153,656
J Murphy	70,000	23,776	13,238	—	**107,014**	107,038
J Swaite	77,500	17,233	7,888	—	**102,621**	87,337
Total	**564,059**	**89,249**	**28,172**	**13,971**	**695,451**	648,450

During the year retirement benefits were accruing to one director (2011: one) in respect of money purchase pension schemes. The value of the Company's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £13,971 (2011: £13,968).

The share option expense recognised during the year in respect of the directors was £4,651 (2011: £2,881).

Directors' share options

	Option scheme	Options at 1 April 2011	Awarded in year	Options exercised	Options lapsed	**Options at 31 March 2012**	Option price	Date of grant
I Fishwick	EMI	510,638	—	—	—	**510,638**	30p	6 December 2010
I Fishwick	Unapproved	89,362	—	—	—	**89,362**	30p	6 December 2010
I Fishwick	Unapproved	152,160	—	—	—	**152,160**	30p	31 July 2003
A Woodruffe	EMI	171,108	—	—	171,108	**—**	42p	29 August 2004
A Woodruffe	EMI	171,108	—	—	—	**171,108**	42p	5 June 2005
A Woodruffe	EMI	187,952	—	—	—	**187,952**	42p	1 August 2008
A Woodruffe	Unapproved	62,048	—	—	—	**62,048**	42p	1 August 2008
A Woodruffe	EMI	—	23,430	—	—	**23,430**	40p	29 August 2011
A Woodruffe	Unapproved	—	176,570	—	—	**176,570**	40p	29 August 2011
J Swaite	EMI	—	75,000	—	—	**75,000**	40p	29 August 2011
J Murphy	EMI	—	75,000	—	—	**75,000**	40p	29 August 2011

10. Income tax expense

	2012 £'000	2011 £'000
Current tax		
UK corporation tax on profit for the year	**362**	225
Adjustments in respect of prior periods	**—**	—
Total current tax	**362**	225
Deferred tax		
Origination and reversal of timing differences	**241**	264
Adjustments in respect of prior periods	**—**	—
Total deferred tax (see Note 13)	**241**	264
Total income tax expense	**603**	489

Notes to the financial statements continued

For the year ended 31 March 2012

10. Income tax expense continued

Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 26% (2011: 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2012 £'000	2011 £'000
Profit before income tax	1,190	752
Tax rate	26%	28%
Expected tax charge	309	211
Expenses not deductible for tax purposes	15	8
Amortisation not deductible for tax purposes	276	258
Change in deferred tax rate	8	23
Adjustments to tax charge in respect of prior periods	—	—
Share options	(4)	—
Marginal relief	(1)	(11)
Actual tax expense net	603	489

There were no material factors that may affect future tax charges.

11. Dividends

On 27 October 2011 the directors approved a maiden dividend of 0.5p per ordinary share. This absorbed £105,337 of shareholders' funds.

12. Intangible fixed assets

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2010	26	846	26,668	27,540
Additions	—	11	—	11
At 1 April 2011	26	857	26,668	27,551
Additions	—	92	5	97
At 31 March 2012	26	949	26,673	27,648
Amortisation				
At 1 April 2010	10	696	8,171	8,877
Charge for the year	3	105	1,375	1,483
Impairment charge	—	—	137	137
At 1 April 2011	13	801	9,683	10,497
Charge for the year	3	62	1,623	1,688
Impairment charge	—	—	116	116
At 31 March 2012	16	863	11,422	12,301
Net book value				
At 31 March 2012	10	86	15,251	15,347
At 31 March 2011	13	56	16,985	17,054

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the final reporting date of 31 March 2012 the net present value of future cash flows of certain cash-generating units indicated that they were below the carrying value and the directors considered it appropriate to record an impairment charge of £116,421 (2011: £137,737) and adjust the economic lives of the respective cash-generating units appropriately.

The Company has no internally generated intangible assets.

13. Property, plant and equipment

	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2010	7	122	509	638
Additions	—	2	34	36
Disposals	—	—	(244)	(244)
At 1 April 2011	7	124	299	430
Additions	—	3	15	18
Disposals	—	—	(105)	(105)
At 31 March 2012	**7**	**127**	**209**	**343**
Depreciation				
At 1 April 2010	7	109	450	566
Charge for the year	—	14	39	53
Disposals	—	—	(239)	(239)
At 1 April 2011	7	123	250	380
Charge for the year	—	1	27	28
Disposals	—	—	(104)	(104)
At 31 March 2012	**7**	**124**	**173**	**304**
Net book value				
At 31 March 2012	**—**	**3**	**36**	**39**
At 31 March 2011	—	1	49	50

14. Deferred taxation

	2012 £'000	2011 £'000
At 1 April 2011	**354**	612
Income statement charge	**(241)**	(264)
Movement in deferred tax on share options	**15**	6
At 31 March 2012	**128**	354

The deferred tax asset is made up as follows:

	2012 £'000	2011 £'000
Capital allowances	**68**	104
Derived financial liabilities	**33**	29
Share options	**27**	6
Tax losses	**—**	215
	128	354

15. Inventories

	2012 £'000	2011 £'000
Consumables	**12**	—

There is no material difference between the replacement cost of inventories and the amount stated above.

Notes to the financial statements continued

For the year ended 31 March 2012

16 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	**2,263**	2,290
Other receivables	**7**	7
Prepayments and accrued income	**594**	461
	2,864	2,758

As at 31 March 2012, trade receivables of £165,851 (2011: £237,560) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired are as follows:

	2012 £'000	2011 £'000
31–60 days	**150**	49
61–90 days	**17**	3
Over 90 days	**50**	68
	217	120

Movement of the Company provision for impairment of trade receivables is as follows:

	£'000
At 1 April 2010	283
Receivables written off during the year as uncollectable	(227)
Provision for receivables impairment for the year	181
At 1 April 2011	237
Receivables written off during the year as uncollectable	(190)
Provision for receivables impairment for the year	118
At 31 March 2012	**165**

The creation and release of a provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering cash. Management regularly reviews the outstanding receivables and does not consider that any further impairment is required. The other assets classes within trade and other receivables do not contain impaired assets.

17. Trade and other payables

	2012 £'000	2011 £'000
Trade payables	**2,212**	2,601
Other taxes and social security costs	**436**	460
Other payables	**183**	96
Accruals and deferred income	**642**	800
	3,473	3,957

18. Long-term borrowings

	2012 £'000	2011 £'000
Between one and two years	**4,206**	1,206
Between two and five years	**1,795**	5,126
More than five years	**—**	938
Bank loans	**6,001**	7,270

The bank loan is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery. Details of the interest rates applicable to the loans are included in Note 25.

Included within bank loans are arrangement fees amounting to £123,975 (2011: £148,875) which are being released over the term of the loan in accordance with IAS 39.

19. Share capital

	2012 £'000	2011 £'000
Authorised		
65,000,000 ordinary shares of 10p each	6,500	6,500
Allotted, called up and fully paid		
21,067,443 ordinary shares of 10p each	2,107	2,107

On 20 July 2011 the High Court approved the order confirming cancellation of the share premium account of the Company. The High Court Order resulted in the creation of a new reserve of £7.965m which the Company has credited to its profit and loss reserve.

Share options

At 31 March 2012, the following options and warrants over the shares of AdEPT were in issue:

	2012		2011	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at 1 April	3,029,782	42p	3,037,433	42p
Granted during the year	359,416	40p	600,000	30p
Forfeited during the year	(171,108)	42p	(607,651)	36p
Exercised during the year	—	—	—	—
Outstanding at 31 March	3,218,090	42p	3,029,782	42p

The weighted average fair values have been determined using the Black-Scholes-Merton Pricing Model with the following assumptions and inputs:

	2012	2011
Risk free interest rate	1.95–4.13%	1.95–4.13%
Expected volatility	20–83%	30–65%
Expected option life (years)	1.0–5.7	1.0–5.7
Expected dividend yield	0%	0%
Weighted average share price	42p	43p
Weighted average exercise price	43p	42p
Weighted average fair value of options granted	5p	5p

The expected average volatility was determined by reviewing the last 100 historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 0%; this estimate of Nil is per the requirement of IFRS 2 where a company such as AdEPT has no current dividend history. It does not bear any relation to the actual dividend policy of AdEPT Telecom plc.

	Exercise price (p)	Expected option life (years)	31 March 2012	31 March 2011
31 July 2003	29	5.7	152,160	152,160
29 August 2004	42	4.6	—	171,108
6 June 2005	42	3.6–4.8	171,108	171,108
14 February 2006	140	3.1–4.1	421,349	421,349
15 February 2006	140	1.25–2.25	59,196	59,196
1 August 2008	42	3.0	250,000	250,000
21 January 2009	12	3.0	1,214,277	1,204,861
6 December 2010	30	1.0	600,000	600,000
29 August 2011	40	3.0	350,000	—
			3,218,090	3,029,782

Notes to the financial statements continued

For the year ended 31 March 2012

19. Share capital continued

Share options continued

During the year ended 31 March 2009 a warrant was issued to Barclays Bank plc over 5% of the diluted share capital of the Company. As at 31 March 2012 this entitled the holder to 1,214,277 shares. The weighted average fair value of this equity instrument of £60,779 has been determined using the Black-Scholes-Merton Pricing Model, applying the same assumptions as those applied to the other equity instruments issued during the period due to Barclays Bank plc being unable to provide a sufficiently reliable estimate of the value of services provided in relation to these warrants.

The mid-market price of the ordinary shares on 31 March 2012 was 47.75p and the range during the year was 21.1p.

20. Pension commitments

At 31 March 2012 there were no pension commitments (2011: £Nil).

21. Operating lease commitments

At 31 March 2012 the Company had lease commitments as follows:

	Land and buildings		Other	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Within one year	**153**	153	**38**	38
Between two and five years	**25**	178	**12**	50

Land and buildings

The Company leases its offices under non-cancellable operating lease agreements. There is no material contingent rent payable. The lease agreements do not offer security of tenure. The lease terms are for approximately five years.

Other

The Company leases various office equipment and motor vehicles under non-cancellable operating lease agreements. The lease terms are three years.

The lease expenditure charged to the income statement during the year is disclosed in Note 5.

22. Related party transactions

During the year CKR Holdings Limited and Rykesh Limited, companies controlled by Chris Fishwick, a director, provided consultancy services to the Company in the normal course of business and at an arm's length basis with a total value of £85,000 (2011: £85,000). There was no balance owed to CKR Holdings Limited or Rykesh Limited at the end of the year (2011: £Nil).

At the year end dividends payable were owed to the following directors:

	2012	2011
C Fishwick	**32,172**	—
I Fishwick	**5,670**	—
R Wilson	**3,941**	—
D Lukic	**463**	—
J Swaite	**56**	—
A Woodruffe	**17**	—

23. Capital commitments

At 31 March 2012 there were capital commitments of £Nil (2011: £34,000).

24. Earnings per share

Earnings per share is calculated on the basis of a profit of £587,190 (2011: £263,500) divided by the weighted average number of shares in issue for the year of 21,067,443 (2011: 21,067,443). The diluted earnings per share is calculated on the assumption that the unapproved and EMI share options as disclosed in Note 17 to the financial statements are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 24,285,533 (2011: 24,097,225).

An adjusted earnings per share is calculated by adding back amortisation of intangible assets and non-recurring costs to retained earnings, giving £2,391,792 (2011: £2,139,307). This is divided by the same weighted average number of shares as above.

	2012 £'000	2011 £'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to equity holders	587	263
Amortisation	1,804	1,620
Non-recurring costs	—	256
Adjusted profit attributable to equity holders, adding back amortisation and non-recurring costs	2,391	2,139
Number of shares		
Weighted average number of shares used for earnings per share	21,067,443	21,067,443
Dilutive effect of share plans	3,218,090	3,029,782
Diluted weighted average number of shares used to calculate fully diluted earnings per share	24,285,533	24,097,225
Earnings per share		
Basic earnings per share	2.79p	1.25p
Fully diluted earnings per share	2.42p	1.09p
Adjusted earnings per share, after adding back amortisation and non-recurring costs		
Adjusted basic earnings per share	11.35p	10.15p
Adjusted fully diluted earnings per share	9.85p	8.88p

Earnings per share is calculated by dividing the retained earnings attributable to the equity holders by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the retained earnings attributable to the equity holders (after adding back amortisation and non-recurring costs) by the weighted average number of ordinary shares in issue.

25. Financial instruments

Set out below are the Company's financial instruments. The directors consider there to be no difference between the carrying value and fair value of the Company's financial instruments.

	2012 £'000	2011 £'000
Financial assets		
Cash	1,869	1,361
Trade and other receivables	2,270	2,297
Financial liabilities		
Interest-bearing loans and borrowings:		
Fixed rate borrowings	7,208	8,726
	7,208	8,726
Amounts due for settlement		
Within twelve months	1,206	1,456
After twelve months	6,002	7,270
	7,208	8,726

25. Financial instruments continued

The Facility A term loan bears interest at 2.25–3.5% over LIBOR, dependent upon the EBITA ratchet, and is repayable by quarterly instalments of £312,500, with the final repayment due on 30 September 2015. At the year end the amount outstanding in respect of this facility was £4.332m.

The Facility B loan bears interest at 3.5% over LIBOR and is repayable in full on the final repayment date of 30 September 2013. At the year end the amount outstanding in respect of Facility B was £3m.

The financial assets of the Company are surplus funds, which are offset against borrowings under the facility, and there is no separate interest rate exposure.

Barclays Bank plc has a cross guarantee and debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

The bank also holds a charge over the life assurance policies of Ian Fishwick and Amanda Woodruffe, directors of the Company, for £1,500,000 and £250,000 respectively.

Obligations under finance leases

As at 31 March 2012 the Company had no finance lease obligations.

Sensitivity analysis

At 31 March 2012 it was estimated that a movement of 1% in interest rates would impact the Company's profit before tax by approximately £81,000. Given the interest rate swap instrument in place, this impact on profit would be reduced should interest rates rise above 2.96%.

Interest rate risk

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company's policy is to keep at least 75% of its borrowings at fixed rates of interest. At 31 March 2012, after taking into account the effect of interest rate management, 100% of the Company's borrowings are at a fixed rate of interest (2011: 100%).

Credit risk

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Company's associated credit risk is deemed to be limited.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2012 was £4,138,542 (2011: £3,658,001).

Loans and receivables

	2012 £'000	2011 £'000
Trade receivables	2,262	2,290
Other receivables	7	7
Cash and cash equivalents	1,869	1,361
	4,138	3,658

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and this policy has been implemented by requiring staff to carry out appropriate credit checks on customers before sales commence.

Trade receivables consist of a large number of customers, spread across diverse industries across the United Kingdom. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Company does not have any significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are connected parties.

Liquidity risk

The Company has an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity risk management requirements. The Company manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities through cash flow forecasting, acquisition planning and monitoring working capital and capital expenditure requirements on an ongoing basis.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dated to the contractual maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows. Discounting is not required as this has no material effect on the financial statements.

25. Financial instruments continued

Amortised cost

Year ended 31 March 2012	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	1,206	4,206	1,795	—
Trade and other payables	2,212	—	—	—
	3,418	4,206	1,795	—

Year ended 31 March 2011	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	1,456	1,206	5,126	938
Trade and other payables	2,601	—	—	—
	4,057	1,206	5,126	938

Currency risk
The Company's operations are handled entirely in sterling.

Capital risk management
The Company is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes to the Company's approach to capital management during the year.

As part of the banking arrangements, the Company is required to comply with certain covenants including net debt to adjusted EBITA, interest cover and cash flow cover.

In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or sell assets to reduce debt.

26. Events after the balance sheet date

On 9 May 2012 the Company signed an agreement to acquire certain trade and assets from Expanse (UK) Communications Limited. Initial consideration of £400,000 has been paid in cash by the Company with the balance of consideration being deferred until April and October 2013. Total deferred consideration is estimated to be £412,000, this amount is contingent and is dependent upon the gross margin and remaining contractual term of the customer contracts acquired as at 1 December 2012. Total consideration is capped at £950,000. Acquisition related costs of £14,000 will be recognised as an expense in the statement of comprehensive income for the year ending 31 March 2013.

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John Swaite
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