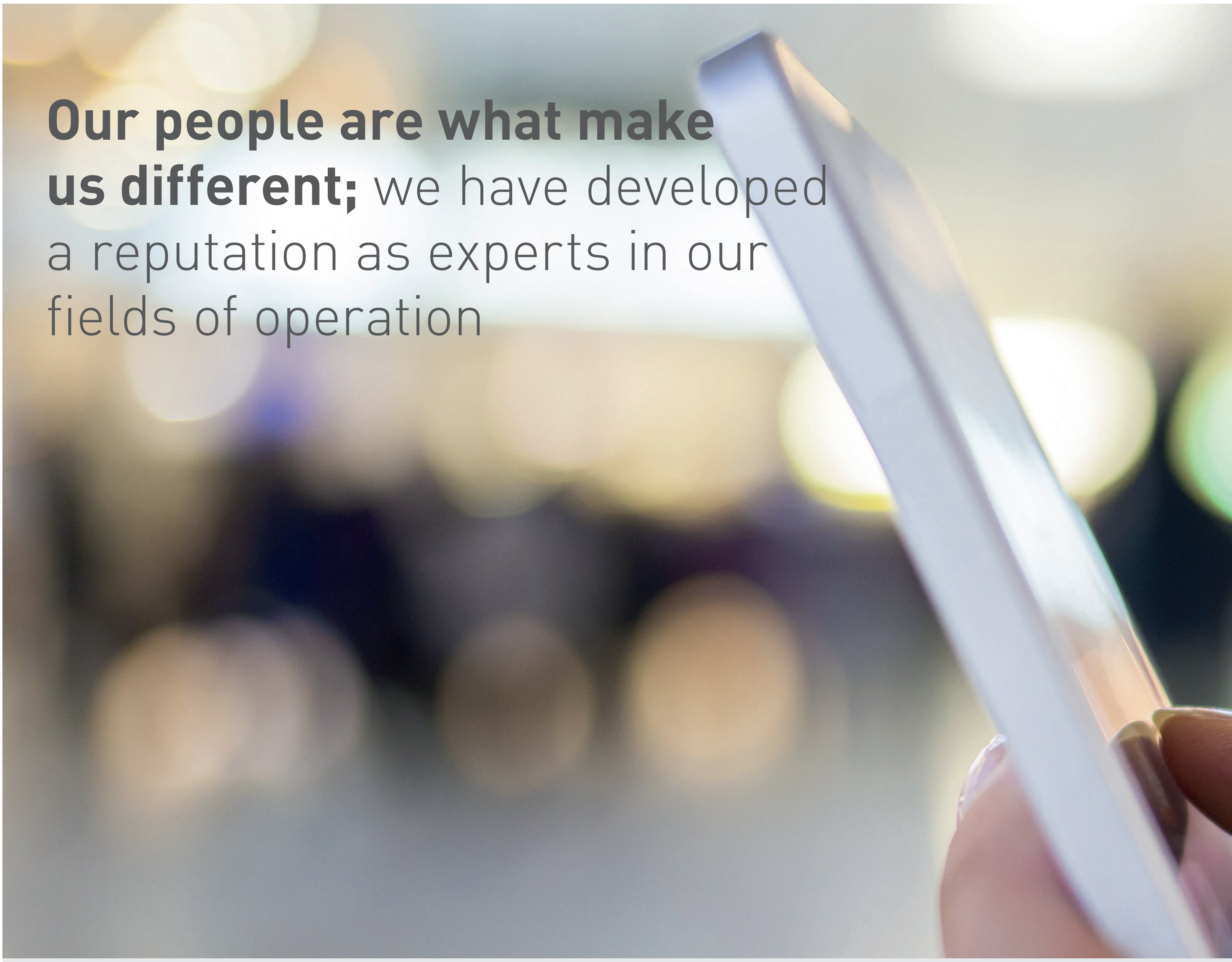
maintel®

Annual Report & Accounts

Maintel Holdings Plc

2014



Our people are what make us different; we have developed a reputation as experts in our fields of operation

Who we are

Maintel provides communication solutions to businesses, delivered either on-premises or cloud-based. We specialise in combining technologies from leading vendors with the skills of our experts to provide complete end-to-end solutions to our customers.

Our Customers

We have a wide spectrum of customers supporting over 13,000 customer sites, both in the UK and internationally. Working with both public and private organisations, we strive to understand and anticipate their needs; aligning our products, services and solutions to meet those needs.

Our Solutions

Maintel provides a comprehensive communication and technology portfolio delivered either on-premises or cloud-based, encompassing unified communications, contact centre, workforce optimisation, networking & security, mobile and connectivity services.

Our Partners

We have strong lasting relationships and retain the highest level of accreditations with our partners. With more than 20 years' experience, Maintel specialises in combining the skills and technologies from our vendors and carriers with the capabilitites of our in-house experts to provide complete end-to-end solutions to our clients.

Our People

Achieving our goals is dependent on the quality and skills of our people. We have a workforce of nearly 300 highly skilled employees and continuously invest in developing our capability to ensure we have the right mix of skills and expertise to deliver on our promise; creating the right solution for our customers.

£41.9m ↑35% 2013: £31.1m

REPORTED REVENUES

£6.1m ↑16% 2013: £5.2m

ADJUSTED PROFIT BEFORE TAX[1]

46.7p ↑24% 2013: 37.6p

ADJUSTED EARNINGS PER SHARE[2]

11.6p ↑29% 2013: 9.0p

PROPOSED FINAL DIVIDEND PER SHARE

"Reconfirmed intention to increase the dividend to approximately 50% of adjusted earnings per share by FY 2015"

Notes

[1] Adjusted profit before tax is basic profit before tax of £3.8m (2013: £3.6m),adjusted for intangibles amortisation and exceptional costs relating to the acquisition of Proximity and Datapoint (2013: Datapoint).

[2] Adjusted earnings per share is basic earnings per share of 27.6p (2013: 25.0p), adjusted for intangibles amortisation and the Proximity and Datapoint exceptional costs.

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"This has been another significant year in the development of Maintel. We have delivered a strong financial performance, with pleasing organic growth, complemented by the acquisition of Datapoint in 2013 and Proximity in 2014, which has brought additional strengths in the areas of unified communications, contact centres, design authority, data networking, security and wireless.

Our confidence in the progression of the business is reflected in the 29% increase in the final dividend"

Eddie Buxton
CEO

Chairman's statement

I am pleased to report on another transformational year for Maintel, with our acquisition of Proximity Communications Limited following on from the Datapoint acquisition in 2013.

Group revenues increased by 35% in the year, to £41.9m (2013: £31.1m), with underlying organic growth of 1% being supplemented by the effects of the acquisitions. Adjusted profit before tax increased to £6.1m (2013: £5.2m), a 16% increase year on year, with adjusted earnings per share of 46.7p, compared with the 37.6p in 2013, an increase of 24%. Unadjusted profit before tax increased by 5% to £3.8m (2013: £3.6m).

The purchase of Proximity in October is the largest acquisition undertaken by Maintel to date, at a gross cost of £12.0m, or £8.5m net of cash acquired. This was funded by an extension of our existing borrowing facilities to a total term loan of £6.0m, supported by a new revolving credit facility of £7.0m, including a £1.0m overdraft facility. Total Proximity revenue for 2014 was £12.3m, and before Maintel management charges, profit before tax was £1.4m. In the period since acquisition Proximity contributed £1.9m revenue and £0.3m profit before tax.

We are now moving into the next stage of the Group's development and growth as we continue to broaden the range of our capabilities with Proximity bringing further critical mass to the Group's Avaya expertise and additional strengths in the areas of unified communications, contact centres, design authority, data networking, security and wireless.

The Group's managed service and equipment sales division delivered a 47% increase in reported revenues, driven primarily by a full 12 months contribution from Datapoint in 2014. On an organic basis, the underlying business (excluding both Datapoint and Proximity contributions) showed slight revenue decline of 1%. The customer contract base in the organic business continued to decline, but this was almost fully offset by a strong year of equipment sales as we transition legacy customers to the new technology characteristic of the Datapoint and Proximity bases. We were particularly pleased that cost savings at Datapoint resulted in its gross margins recovering more than anticipated, to above pre-acquisition levels, so that overall divisional gross margin excluding Proximity remained at 37%.

The Group's network services division reported a 3% increase in revenues, 2% of which was organic growth driven primarily by a 29% increase in data revenues. Although sales of call minutes are still growing in this division, associated revenue and profit from this revenue stream continue to diminish with rate erosion. We continue to counter this rate erosion by converting customers to the more "future-proof" SIP technology, which also provides a base into which we are able to sell additional services.

In our mobile division revenues increased by 12% to £2.9m following a disappointing year in 2013, with investment in the sales force beginning to deliver. The number of connections increased marginally in the year while customer numbers declined as we continue to manage the base in favour of larger, more profitable customers. Gross margin reduced in the year due to a combination of higher up-front acquisition costs and changes to one of the networks' commission arrangements as had been expected. The effects of this have now unwound.

Cash generation from trading improved significantly with net cash flow from operating activities of £6.1m. Net borrowings at the year end were £6.7m following the acquisition of Proximity for a net £8.5m, which was funded by an increase in term loan to £6.0m and a £7.0m revolving credit facility, including a £1.0m overdraft facility.

In the 2013 annual report we announced our intention to increase the dividend to approximately 50% of adjusted earnings per share over the course of the following two years. This process commenced with the payment of 43% in respect of the 2013 final dividend which was paid in April 2014, and 44% in respect of the 2014 interim dividend paid in October 2014. We propose to pay a final dividend for 2014 of 11.6p, 45% of adjusted earnings per share, bringing the total payable for the year to 20.9p (2013: 9.0p and 15.7p), which will be paid on 1 May to shareholders on the register on 20 March.

Our current priority is to complete the successful integration of Proximity into the Group, capitalising on the enhanced product portfolio, skillsets, cross selling and cost saving opportunities that the acquisition brings. We do, however, remain committed to considering further acquisition opportunities, both businesses and customer bases, where these can be seen to add shareholder value. We continue to grow our expertise in evolving technologies such as hosted environments, where we have already made some encouraging organic progress including the recent launch of the Maintel Cloud unified communications and contact centre proposition.

Finally, I'd like to acknowledge the immense contribution made by all of our staff to the year's successes and extend a particular welcome to those who have joined us from Proximity, a business of outstanding quality. We have experienced a significant year in the Group's development and we look forward with confidence to building on that in 2015.

J D S Booth
Chairman

6 March 2015

Strategic report

Results for the year

The results for 2014 show good performance in both the historic Maintel business, which recorded organic revenue growth of 1% in the period, and the two recently acquired businesses, Datapoint acquired in 2013 and Proximity Communications Limited ("Proximity") in October 2014.

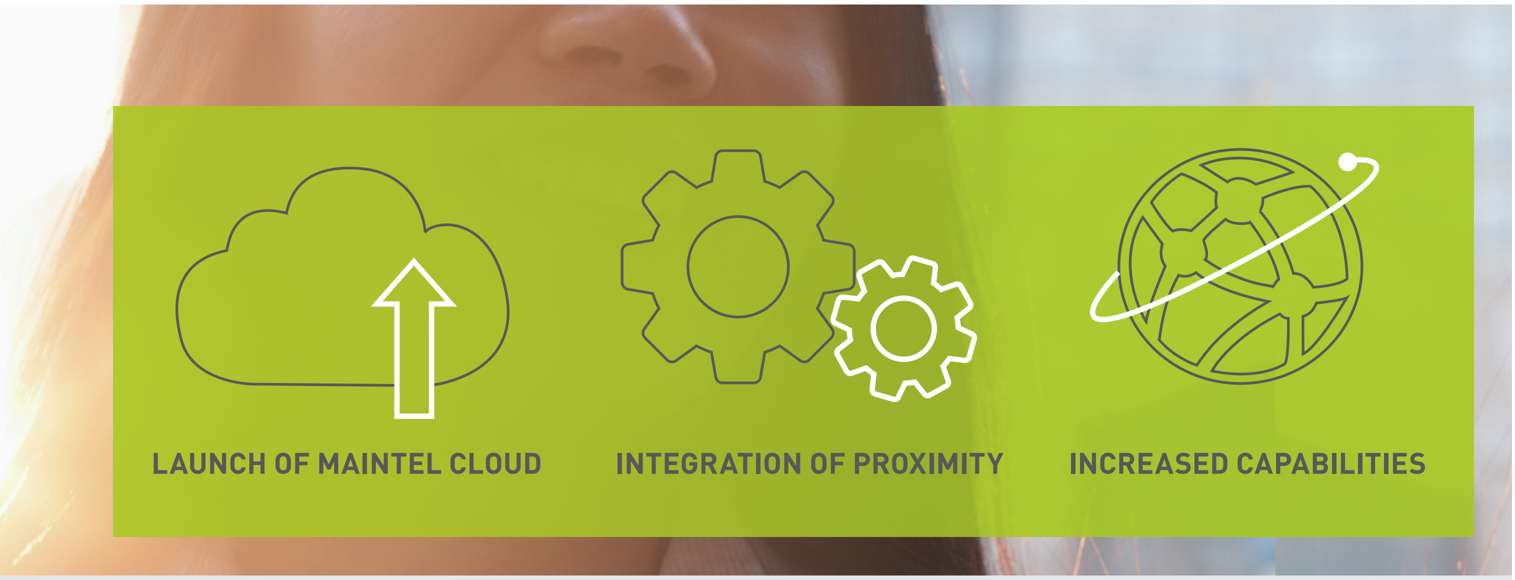
The acquisition of Proximity marked another step change for the Group and the inclusion of a full year contribution from Datapoint in 2014, together with 9 weeks of Proximity, has driven a 35% increase in Group revenue to £41.9m (2013: £31.1m).

Adjusted profit before tax (as described below) has increased by 16% to £6.1m (2013: £5.2m), and adjusted EPS increased by 24% to 46.7p (2013: 37.6p).

On an unadjusted basis, profit before tax of £3.8m (2013: £3.6m) and EPS of 27.6p (2013: 25.0p) include the exceptional costs associated with the acquisitions. The 2014 unadjusted figures include an increase of £0.6m in intangibles amortisation compared with 2013, with a full year charge for Datapoint and a part-year charge for Proximity.

	2014 £000	**2013 £000**	**Increase**
Revenue	41,890	31,124	35%
Profit before tax	3,809	3,643	5%
Add back customer relationship intangibles amortisation	1,472	898	
Exceptional items relating to the acquisition of Proximity (2013: Datapoint)	809	691	
Adjusted profit before tax	6,090	5,232	16%
Of which:			
Maintel ^	5,828	5,232	11%
Proximity ^	262	–	
	6,090	5,232	16%
Adjusted EBITDA ~	6,407	5,397	19%
Basic earnings per share	27.6p	25.0p	10%
Diluted	27.2p	24.7p	10%
Adjusted earnings per share*	46.7p	37.6p	24%
Diluted	46.0p	37.1p	24%

* Adjusted profit after tax divided by weighted average number of shares (note 10).
^ Before management charges.
~ Excluding the exceptional costs in the table above (note 12).



Strong cash performance

The Group's operating cash flows improved significantly in the period, with net cash flows from operating activities of £6.1m (2013: £1.0m). The improvement was primarily driven by increased profits and a significant improvement in working capital inflow. The Group ended the year with net debt of £6.7m (2013: £2.2m) or just under 1.1x net debt to adjusted EBITDA. £0.75m of borrowings were repaid during the year and a further £8.0m drawn to finance the acquisition of Proximity, as described in more detail later in this report.

Acquisition of Proximity

On 24 October 2014, the Group acquired Proximity for a gross consideration of £12.0m. Proximity is an Avaya Platinum Enterprise Business Partner and adds a range of capabilities to Maintel in unified communications, contact centre, design authority, data networking, security and wireless. It also significantly enhances the Group's profile with Avaya, with benefits including improved sales and technical collaboration and industry leading skills and certification levels.

Proximity provides managed services to approximately 250 UK customers and has an annualised contract base of £6.0m, bringing the total Group managed service base at the year end to £25.0m. A substantial part of the Proximity revenue stream is recurring (over 50%), with other income including consulting, professional services and technology sales. It contributed £1.9m revenue and £0.3m profit before tax in the period since acquisition, most of this falling within the managed service and equipment segment, with the remainder in network services, as described overleaf.

Synergies resulting from the joint servicing of the Proximity and Maintel bases include bringing currently subcontracted support contracts in-house as a result of the combined Group's extended skillsets, and cost savings from joint purchasing. The integration of Proximity and realisation of these synergies is progressing well and further cost savings will be achieved over the course of 2015. The variety of sales skills across the Group is also being harnessed into a more cohesive structure to capitalise on opportunities presented by the Group's increasing product portfolio.

Review of operations

The table overleaf summarises the revenues of the three operational divisions of Maintel. Proximity revenues are primarily derived from managed services and equipment sales and most will be reported within the managed services and equipment division in future periods, the remainder being reported within the network services division, however they are stated separately in this report to show the underlying movements year on year. The 2013 numbers include 15 weeks contribution from Datapoint for the period post acquisition to the year end. The 2014 numbers include 12 months contribution from Datapoint and 9 weeks contribution from Proximity.

Strategic report continued

Review of operations continued

Revenue analysis (£000)	2014 Maintel	2014 Proximity	2014 Total reported	2013 Reported	Increase	Increase excl Proximity
Managed services related	19,495	1,109	20,604	14,477	42%	35%
Equipment, installations and other	10,710	679	11,389	7,287	56%	47%
Total managed services and equipment division	30,205	1,788	31,993	21,764	47%	39%
Network services division	7,058	98	7,156	6,938	3%	2%
Mobile division	2,907	–	2,907	2,597	12%	12%
Intercompany	(166)	–	(166)	(175)	5%	5%
Total Maintel Group	40,004	1,886	41,890	31,124	35%	29%

The table below shows the performance of the underlying historic "Maintel" business, excluding both Datapoint and Proximity from both years.

Organic revenue performance (£000)	2014 Maintel organic	2013 Maintel organic	Increase/ (decrease)
Managed services related	11,308	11,966	(5)%
Equipment, installations and other	6,458	5,993	8%
Total managed services and equipment division	17,766	17,959	(1)%
Network services division	7,058	6,938	2%
Mobile division	2,907	2,597	12%
Intercompany	(166)	(175)	5%
Total	27,565	27,319	1%

The organic managed service base has declined during the year but the bulk of this decline has been mitigated by higher equipment revenues, so that the divisional revenue has fallen only £0.2m, or 1%. Growth in both the network services and mobile divisions of 2% and 12% respectively more than compensates for this, resulting in 1% organic growth in the period.

Of total Group revenue for 2014, 73% is recurring (2013: 77%), the reduction in the year largely being a function of a full year of Datapoint revenue which was 66% recurring, and the drop in the historical managed service base.

Divisional performance is described further overleaf.

Managed services and equipment division

The managed services and equipment division provides the management, maintenance, service and support of office-based voice and data equipment across the UK and Ireland on a contracted basis. It also supplies and installs voice and data equipment to managed services customers, both to our direct clients and into our partner customers.

On a reported basis, revenues in this division increased by 47% to £32.0m, with managed services related revenue up 42% and equipment sales up 56%.

The growth in revenues reflects a full year's revenue contribution from Datapoint compared with 15 weeks in 2013, and 9 weeks contribution from Proximity. The historic Maintel business showed a 1% fall in revenues reflecting a reduction in the legacy equipment Maintel customer base, offset by improving sales of equipment, as customers refresh their technology.

The performance in the first half of the year was particularly strong in this division as two large technology orders placed in 2013 were fulfilled in H1 2014, boosting first half performance in both sub-divisions of the managed services and equipment division, as detailed below and overleaf.

The expected reduction in gross margins resulting from the impact of the acquisition of Datapoint was mitigated by improvements in gross margins in the underlying business as the benefits of the reduced use of sub-contracts and other synergies started to come through. As a result gross margins were maintained at 37%. Proximity gross margins were higher than the Group overall, at 47% in the period since acquisition, due to the focus on higher specification products and a larger contribution from professional services.

Managed services

(a) Maintel, excluding Proximity

Revenue including Datapoint increased by 35% year on year, but in the historic Maintel business (i.e. excluding both Datapoint and Proximity) revenue decreased by 5%.

It was noted at the half year that the historic customer base had reduced as customers made the transition to lower revenue IP technology. This was exacerbated by the loss of three larger customers in the second half, with new sales not sufficient to replace those losses. An encouraging increase in the Datapoint base in the second half partially compensated for the loss, albeit this was not sufficient to prevent the overall base reducing by 4% to £19.4m (2013: £20.1m).

A key focus during 2015 will be to target customers with older systems with a view to migrating them to a hosted system which provides them with a flexible opex option of upgrading their technology and which typically has the advantage of having much lower levels of churn. This will be facilitated initially by the launch of a Maintel cloud unified communications and contact centre hosted platform, based on Avaya technology.

(b) Proximity

The Proximity customer base had an annualised value of £6.0m at the year end, and it contributed £1.1m in managed service revenues in the 9 weeks since its acquisition. The size and nature of Proximity's typical customer is more akin to the Datapoint base with its more contemporary technology than to Maintel's historic base, and it is anticipated moving forward that the growth in the customer base derived from their newer skillsets will more than compensate for the loss of older technology customers which make up a higher proportion of the historic Maintel base. In addition to the synergies already identified, further savings will be achieved from eliminating sub-contracted support contracts that can be brought in-house, cost savings from joint-purchasing and the sharing of maintenance stock.

Equipment sales

(a) Maintel, excluding Proximity

Revenue including Datapoint increased by 47% year on year, and in the historic Maintel business (i.e. excluding both Datapoint and Proximity) revenue grew by 8%.

Strategic report continued

(a) Maintel, excluding Proximity continued

The first half of 2014 was particularly strong, with equipment and professional services revenues excluding Datapoint up 12% on the corresponding period in the previous year, helped by the delivery of two sizeable projects signed at the end of 2013. A number of major projects were completed in the second half including a contact centre installation for an insurance company and an infrastructure upgrade for a local council; however the H1 deals were larger in scale, so that performance in the second half was weaker in comparison, with revenues down 15% on the first half. We had anticipated the start of a major international roll-out for a pharmaceuticals company during the second half however this only commenced to any real degree in Q4 and we are expecting to see this develop in 2015.

(b) Proximity

The Proximity business model is the same as that of Maintel, with equipment, professional services and other revenues being derived from Proximity's managed service customers as they grow or refresh their technology. Proximity contributed £0.7m of such revenue in the period since acquisition.

Division gross profit (£000)	2014	2013	Increase
Maintel (including Datapoint)	11,311 (37%)	8,044 (37%)	41%
Proximity	847 (47%)	–	
Total division	12,158 (38%)	8,044 (37%)	51%

Given the application of common resource across both managed service and equipment sales, definitive margin data on the separate business sectors is not provided; however management figures are used to monitor constituent elements internally.

Network services division

The network services division sells a portfolio of services which includes telephone line rental, inbound and outbound telephone calls, data connectivity, internet access and hosted IP telephony solutions. These services complement those offered by the managed service and equipment division and the mobile division. The acquired Datapoint companies make no direct revenue contribution to this division.

Revenue analysis (£000)	2014 Maintel	2014 Proximity	2014 reported	2013 reported	Increase/ (decrease)
Call traffic	2,385	62	2,447	2,586	(5)%
Line rental	3,211	36	3,247	3,179	2%
Data services	1,040	–	1,040	809	29%
Other	422	–	422	364	16%
Total division	7,058	98	7,156	6,938	3%

	2014	2013	Increase
Division gross profit (£000)	2,074 (29%)	2,055 (30%)	1%

The network services division continues to show revenue growth despite overall market contraction, with organic revenue increasing by 2%. Proximity made a small contribution in the period since acquisition, resulting in total reported revenue growth of 3%. Gross profit was flat as margins reduced by 0.6% due to changing business mix and one specific lower margin data contract.

As expected, call minutes billed continued to increase year on year as new customers were signed and attrition remained low in comparison. However continuing price pressure, regulatory changes and the bundling of minutes in to SIP channel rentals resulted in call revenues, the highest margin revenue stream of the division, reducing by 8% excluding Proximity revenues.

Line rental revenues increased by 2% in the year with new sales being partly offset by clients rationalising large line estates to reduce costs and also the transitioning of some customers towards newer SIP technology, which is classified as other services in the table on previous page. The shift from more commoditised traditional line rentals to SIP benefits our business through lower attrition levels associated with SIP and plays to Maintel's professional service, solution design and engineering strengths. IP-based solutions also allow Maintel to upsell data connectivity and hosted services more easily to its customers.

Data connectivity revenues showed particularly impressive growth in the year, with an increase of 29% including a key new contract with over 800 connections connecting in the final quarter of 2014. The lower margin associated with larger contracts reduced overall divisional margins by 1% year on year.

An additional large MPLS contract was won at the end of 2014 and will start to benefit the division's data connectivity revenues in Q2 of 2015.

Mobile division

Maintel Mobile derives its revenues primarily from commissions received under its dealer agreements with Vodafone and O2, supplemented by revenue derived from ongoing customer monthly spend. Neither the Datapoint nor Proximity acquisitions contribute directly to this division.

£000	2014	2013	Increase/ (decrease)
Revenue	2,907	2,597	12%
Gross profit	1,517 (52%)	1,640 (63%)	(8)%

	At 31 December 2014	At 31 December 2013	Decrease
Number of customers	815	952	(14)%
Number of connections	13,199	13,178	–

Strategic report continued

Mobile division continued

Mobile revenue increased by 12% in 2014 to £2.9m as the number of new signings increased significantly year on year, as the benefits of investment in developing a more experienced sales team during the year began to come through. Overall, the number of connections at the end of the year was up slightly on that at the end of 2013, with the number of customers again down as we focus on larger, more profitable business, with the average number of connections per customer increasing by 17%.

Gross profit decreased by 8% to £1.5m as margins were impacted by the higher cost of sale associated with winning new customers from outside the Group whilst changes to commission arrangements implemented by one of our network suppliers affected margins on both new and renewal business. These commission changes were implemented in August 2013 but had a greater impact in 2014 and have now fully unwound; as a result the gross margin fell to 52% (2013: 63%).

Cross selling opportunities continue, with Proximity's customer base providing additional opportunities and two firm prospects already engaged. The mobile base also continues to provide prospects for the other divisions' services including recent engagement on a large contact centre opportunity and successful deployments of fixed line, data connectivity and audio conferencing services.

Administrative expenses, excluding intangibles amortisation and non-trading adjustments

Administrative expenses (£000)	**2014**	**2013**	**Increase**
Maintel sales expenses	2,535	2,408	5%
Maintel other administrative expenses (excluding intangibles amortisation and exceptional expenses)	2,997	2,780	8%
Maintel excluding Datapoint and Proximity	5,532	5,188	7%
Datapoint administrative expenses	3,178	1,148	
Proximity administrative expenses	665	–	
Total administrative expenses excluding intangibles amortisation and non-trading adjustments	9,375	6,336	48%

Total other administrative expenses excluding Datapoint and Proximity increased by £0.3m (7%) in the year, the main factors being the expansion of the mobile sales team and increased support costs reflecting the increased size of the Group. The 2013 Datapoint and 2014 Proximity administrative expenses are shown above from the date of acquisition.

The exceptional costs of £0.8m shown in the income statement relate to £0.5m legal and professional fees incurred in respect of the acquisition of Proximity and £0.3m of redundancy costs resulting from the combining of certain operations following that and the Datapoint acquisitions.

The intangibles amortisation charge increased in the year due to the charge applying to the Proximity intangible acquired during the year and a full year charge in respect of Datapoint. Impairment and amortisation charges are discussed further overleaf.

Interest

Interest receivable amounted to £2,000 in 2014, the same as 2013, with the Group becoming a net borrower in 2013 following the acquisition of the Datapoint companies.

The Group recorded a £135,000 interest charge in the year (2013: £32,000) on the borrowings secured to acquire Datapoint and Proximity.

Taxation

The consolidated statement of comprehensive income shows a tax rate of 22.7% (2013: 26.8%). Each of the Group companies is taxed at 21.5%, other than Datapoint Communications Limited, which is taxed at 12.5% (2013: 23.25%; 12.5%). Certain recurring expenses that are disallowable for tax raise the effective rate above this and the rate is further inflated in the year by the £0.5m costs of the Proximity acquisition (2013: £0.6m in respect of the Datapoint acquisition) not being an allowable deduction for tax; excluding these acquisition costs the tax rate would be 20.0% in 2014 and 23.2% in 2013.

The tax charge in the year includes a deferred tax charge relating to the tax losses of the Datapoint companies, whereby they do not currently pay corporation tax on their profits, but a tax asset in respect of the historic losses is charged to the income statement as the losses are used. The deferred tax charge in the year was £0.2m (2013: £Nil) in relation to the brought forward losses. This is described further in note 21.

Dividends

A final dividend for 2013 of 9.0p per share (£961,000 in total) was paid on 24 April 2014, and an interim dividend for 2014 of 9.3p (£993,000) was paid on 3 October 2014.

It is proposed to pay a final dividend of 11.6p in respect of 2014 on 1 May to shareholders on the register at the close of business on 20 March, which is a 29% increase on the 2014 final dividend taking the Group's payout ratio as a percentage of adjusted earnings to 45%. The corresponding ex-dividend date will be 19 March. In accordance with accounting standards, this dividend is not accounted for in the financial statements for the period under review as it had not been committed as at 31 December 2014.

The Business model section overleaf describes the board's dividend policy.

Consolidated statement of financial position

Net assets increased by £1.1m in the year to £5.0m at 31 December 2014, of which £3.3m was cash (2013: £0.5m). Cash flow and borrowings are described further overleaf.

Trade receivables have increased by £2.2m in the year, the main reason being the inclusion of £2.6m of Proximity trade receivables at the year end, net of a reduction in equipment sale invoicing at 2014 year end and a different phasing of a large managed service billing.

Prepayments have increased by £1.3m, with the Proximity acquisition accounting for £0.9m of this and a further £0.3m arising from an increase in prepaid subcontractor costs at the end of 2014.

The value of maintenance stock has increased by £0.4m in the year, to £1.1m, due to the maintenance stock acquired with Proximity. The value of stock held for resale has increased from £0.2m to £0.4m, the increase down to the timing of project installations and supplier invoicing.

Trade payables have increased by £2.1m since 31 December 2013, £1.9m of this attributable to Proximity's year end balances and £0.2m to late payment of a disputed supplier invoice.

Other tax and social security liability has increased by £0.5m. The Proximity liability amounts to £0.8m, partly offset by a reduced VAT liability on the lower trade receivables noted above.

Accruals have increased by £0.5m year on year, again largely due to the Proximity liability acquired.

Deferred managed service income has increased by £3.8m, with £3.6m attributable to Proximity at year end.

Other deferred revenue has fallen by £0.1m due to invoicing timing differences.

The deferred tax liability has increased by £1.1m in the year as a result of the establishment of a liability on the recognition of an intangible asset representing Proximity's customer contracts, net of a £0.1m credit to the income statement as shown in note 21.

No significant capital expenditure has been required on plant and equipment during the period, with assets of £0.1m being acquired with Proximity and the depreciation charge including a £0.02m charge in respect of Proximity. The main expenditure was, as usual, on IT and routine office refurbishment.

Intangible assets

The Group has two intangible asset categories: (i) an intangible asset represented by customer contracts and relationships acquired from District Holdings Limited, Callmaster Limited, Redstone, Maintel Mobile, Datapoint and Proximity, and (ii) goodwill relating to the Maintel Network Services, District, Redstone, Maintel Mobile, Datapoint and Proximity acquisitions.

Goodwill of £9.9m (2013: £4.7m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. The £5.2m increase in the year relates to the acquisition of Proximity and a small adjustment to the Datapoint goodwill. No impairment has been charged to the consolidated statement of comprehensive income in 2014 (2013: £Nil).

The intangible assets represented by purchased customer contracts and relationships were carried at £10.5m at the period end (2013: £6.3m). £5.7m of value was added in the year relating to the acquisition of Proximity. The intangible assets are subject to an amortisation charge of 17% of cost per annum in respect of managed service and maintenance contract relationships, and 14.2% per annum in respect of network services contracts and Maintel Mobile customer relationships, with £1.5m being amortised in 2014 (2013: £0.9m), the increase attributable to the Proximity customer relationships acquired and a full year's amortisation of the Datapoint intangible.

Strategic report continued

Cash flow

At 31 December 2014 the Group had cash and bank balances of £3.3m (2013: £0.5m), all unrestricted save for the floating charge held by Lloyds Bank.

Borrowings were £10.0m at the year end (2013: £2.8m). During the year, £0.8m was repaid, and a further £4.0m loan and £6.0m revolving credit facilty ("RCF") was drawn on 24 October 2014 to finance the acquisition of Proximity for a consideration of £12.0m gross, £8.5m net of £3.5m cash acquired with the business. £2.0m of the RCF was subsequently repaid so that borrowings resulted in the £10.0m balance at the year end. The Group retains its overdraft facility of £1.0m with Lloyds. Further details of the loan, RCF and overdraft facility are given in note 20.

	2014 £000	2013 £000
Cash generated from operating activities	7,103	2,111
Taxation	(1,049)	(1,148)
Capital expenditure	(81)	(89)
Finance cost (net)	(133)	(30)
Free cashflow	5,840	844
Dividends	(1,954)	(1,494)
Acquisitions (net of cash acquired)	(8,468)	(3,497)
Proceeds from borrowings	10,000	3,000
Repayments of borrowings	(2,750)	(250)
Issue of new ordinary shares	88	–
Increase/(decrease) in cash and cash equivalents	2,756	(1,397)
Cash and cash equivalents at start of period	544	1,941
Exchange differences	47	–
Cash and cash equivalents at end of period	3,347	544
Bank borrowings	(10,000)	(2,750)
Net debt	(6,653)	(2,206)
Adjusted EBITDA (note 11)	6,407	5,397

Cash generated from operating activities in 2014 at £7.1m (2013: £2.1m) was affected by non-recurring transactions, as it was in the previous year, as follows:

(a) Proximity was acquired with abnormally high receivables due to the invoicing of some large contracts. The settlement of these pre-year end has enhanced cash flow.

11.6p ↑29%
2013: 9.0p
FINAL DIVIDEND

£5.8m ↑86%
2013: £0.8m
FREE CASH FLOW

(b) At 31 December 2012, £0.9m was accrued in respect of the final payment due of the consideration payable for the acquisition of Maintel Mobile. This was paid in January 2013 and so in the 2013 cash flow statement this is shown as a working capital movement outflow.

(c) 2013 cash flow was adversely affected by the deferral at December 2012 of £1.2m of supplier payments for operational reasons, so depressing 2013 cash flows when they were paid.

(d) The Group incurred an exceptional cost of £0.8m during 2014, £0.5m in respect of legal and professional fees in relation to the Proximity acquisition and £0.3m in respect of redundancy costs in relation to the Proximity and Datapoint acquisitions (£0.6m and £0.1m in 2013 in respect of the Datapoint acquisition).

Business model and strategy

The Group's objective is to maximise shareholder returns over the short, medium and long-term through the provision of telecoms-related products and services. Historically these services were provided predominantly in the UK, however with the acquisition of the UK and Ireland operations of the Datapoint group in September 2013, the Group now also services a range of customers overseas.

The provision of these services is centred around the Group's managed services and equipment division.

With the acquisition of Proximity, the Group now has a contracted customer base of £25m per annum, and the provision of managed and break-fix services to this base creates the opportunity to sell other services into clients, primarily equipment and professional services, and the Group combines these revenue streams into a single business unit. The Group operates two other business units – network services and mobile - whose services are cross-sold into the managed services base and to external clients, mostly in the SME sector.

Organic growth in each business unit is targeted in each financial year, and will be supplemented by the acquisition of complementary companies or client bases where clear shareholder value creation can be achieved. Acquisitions may be funded out of cashflow, borrowings or the issue of shares, dependent on a range of factors considered at the time. Targeted acquisitions will also bring extended capabilities, such as overseas customers and enhanced contact centre expertise with Datapoint and further security, professional service and higher end Avaya expertise with Proximity. Organic initiatives are also developed such as the recent launch of a Maintel cloud unified communications and contact centre service in conjunction with Avaya.

In the 2013 annual report the board announced that it intended to increase the dividend to approximately 50% of its adjusted earnings per share over the course of the following two years. This process commenced with the payment of 43% in respect of the 2013 final dividend which was paid in April 2014, and 44% in respect of the 2014 interim dividend paid in October 2014. The directors are proposing a final dividend of 11.6p for financial year 2014, which when combined with the interim 2014 dividend of 9.3p per share gives a full year dividend of 20.9p, equivalent to 45% of adjusted earnings per share.

Strategic report continued

Principal risks and uncertainties

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

Telecommunications hardware has historically focused on a PBX core, which is gradually being replaced by hosted and cloud capabilities. Customers' acceptance of the new technologies moves at varying rates, however, so that legacy systems will continue to be serviced for some time to come. Maintel sells and maintains the replacement breed of unified communications and contact centre systems, and has had notable success with the transition to date. Managed service income from the new technology can be reduced when compared to traditional telephony although this is mitigated through reduced service delivery costs and promoting a managed service concept, retaining where possible the resultant enhanced calls and lines revenue and up-selling high value new products such as network monitoring, software assurance and mobile services. The acquisition of Datapoint and Proximity, with their broader range of associated business application skills in the unified communications contact centre high growth space, will accelerate Maintel's ability to drive new revenue streams.

VoIP technology is a potential threat to the reselling of call minutes with a particular type of customer. Recognising this potential risk, the Group has expanded its product portfolio to include SIP trunking and hosted IP technology, which is gaining traction, with these and related revenue growing significantly during 2014. The development of VoIP is constantly monitored so that the Group may take advantage of profitable business models as and when they appear.

The Group has a close partner relationship with O2/Telefonica and to a diminishing extent Vodafone (incorporating Cable & Wireless Worldwide), such that these companies and their clients constitute a significant share of its managed service base. The extent of the relationship with O2 has grown with the acquisition of the Datapoint companies and the work they carry out for O2. Should the relationships be terminated, the managed service base would reduce to that extent over time, necessitating a commensurate reduction in costs. Partnerships with other integrators continue to be developed to reduce the percentage weighting of business with these partners.

Maintel Mobile is a dealer for networks, primarily Vodafone and O2, and is reliant on its relationships with those companies. The Group more generally relies on its contracts with both suppliers and clients and, beyond contractual status, maintains strong relationships with them at various levels of the business, as well as striving to ensure that client expectations are met and, where possible, exceeded.

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

The pricing of the network services and mobile divisions' products and services can be affected by regulatory bodies in the UK and the EU. The Group is also potentially subject to new pricing strategies by both competitors and suppliers, whether due to their own internal policies or in response to technological change. The Group mitigates these risks by assessing anticipated regulations and pricing strategies and amending its own pricing policies accordingly.

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

Employees

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

Periodic updates are distributed to employees, and a Group intranet is core to open communication amongst employees; this continues to be developed.

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

Environment

The Group acknowledges its responsibilities to environmental matters and where practicable adopts environmentally sound policies in its working practices, such as recycling paper and packaging waste and using specialist recyclers of scrap telecommunications and IT equipment. A major consideration when replacing company cars is their impact on the environment, a focus on the replacements during 2014 being on energy saving technologies, with the new vehicles consequently attracting zero road tax. The Group also makes use of in-house video-conferencing facilities to reduce the need for regional meetings. Maintel Europe Limited has ISO14001:2004 accreditation for its environmental management systems.

Outlook

Looking across the Group we feel confident in an outlook for continued organic revenue growth in the coming year. In addition, we remain committed to considering suitable and complementary acquisition opportunities, on the basis that they provide clear value to our shareholders. The Group is well placed to exploit such opportunities with current gearing levels in the business comfortably within the range which the Group is able to support.

In the short-term our focus remains on fully integrating the Proximity business into the Maintel Group. Notwithstanding the progress made to date, the board sees the opportunity for further synergies to be realised throughout 2015.

In light of this outlook the board remains committed to its previously stated intention to increase the dividend payout to around 50% of adjusted earnings per share by FY 2015.

On behalf of the board

E Buxton
Chief Executive

6 March 2015

Board of directors

Eddie Buxton, 54, Chief executive

Eddie was appointed Chief executive in February 2009, having previously been Managing director of the telecoms division of Redstone plc. Eddie has worked in telecoms since 1995 including senior roles with Cable and Wireless, NTL and Centrica Telecommunications.

Angus McCaffery, 48, Sales and marketing director

Angus co-founded Maintel in 1991 and since 1996 has been the Group's sales and marketing director, having an increasing focus on business development with larger partner business, expanding the international operation as well as sourcing other organic and inorganic opportunities. He is also a Non-executive director of Nasstar Plc, the AIM listed cloud computing provider.

Kevin Stevens, 49, Operations director

Kevin was appointed to the board on 1 January 2014. He joined the Group in June 2010 and has been a director of the main trading company, Maintel Europe Limited, since December 2011. He has worked in the Communications and IT industry since 1981, holding senior operations and general management positions with Genesis Telecommunications, Xpert Communications, Redstone and Westcon Convergence, with a focus on improving business operations, process and customer service.

Dale Todd, 56, Finance director

Dale qualified as a chartered accountant with Thomson McLintock (now KPMG) in 1982 and joined the Group in March 2002. Prior to this he held positions as Group finance director at Rolfe & Nolan Plc, Best International Group Plc and HS Publishing Group Ltd.

John Booth, 56, Non-executive chairman

John was appointed Chairman of Maintel in 1996. He also chairs or acts as a Non-executive director of several private companies in investment management, telecoms and the film industry and is a consultant to Herald Venture Partners. John's earlier career was spent in equity investment and broking where he held various senior positions including Head of equities at Bankers Trust and co-founder and Executive chairman until 2011 of the Link Group, acquired by ICAP plc in 2008. He is a fellow of Merton College, Oxford and a trustee of several charities in which role he serves on a number of investment committees.

Darren Boyce, 46, Non-executive director

Darren was appointed to the board on 24 November 2014, having been CEO of Proximity Communications Limited, which was acquired by Maintel on 24 October 2014. Proximity was created in 2009 following a merger between Applinet plc and the Unified Group where Darren was co-founder and Managing director of Applinet and fulfilled the role of CEO of the merged companies. Darren has a successful track record of being involved in growth-driven environments and in all aspects of sales & marketing.

Annette Nabavi, 62, Non-executive director

Annette was appointed to the board on 30 June 2014. She is also Finance Director of Women in Telecoms & Technology and a member of the Advisory Board of the National Media Museum. Annette undertakes corporate finance advisory work with AHV Associates LLP and previously held the positions of Global Head of Telecoms Business Development at ING Barings, Managing Director of XchangePoint Holdings Ltd and she was a Senior Partner at the PA Consulting Group.

Nicholas Taylor, 48, Non-executive director

Nicholas has extensive experience of working with growing organisations, principally in the media and communications industries. He has worked as a consultant and in-house, in both an executive and non-executive capacity and has held senior positions in both private and public businesses and in the not for profit sector. He is also Non-executive chairman of Linstock Communications, a public relations consultancy.

Report on corporate governance

As a company listed on the Alternative Investment Market of the London Stock Exchange, Maintel Holdings Plc is not required to comply with the UK Corporate Governance Code ("the Code"). However, the board of directors recognises the importance of, and is committed to, ensuring that proper standards of corporate governance operate throughout the Group. A description of the main governance policies and procedures adopted by the Group is set out below.

Board of directors

The board consists of four Executive directors and four Non-executive directors, the latter being John Booth, who is Chairman, Darren Boyce, Annette Nabavi and Nicholas Taylor. The chairman is responsible for the effective running of the board and the Chief executive is ultimately responsible for all operational matters and the financial performance of the Group.

Other than in respect of Mr Booth's and Mr Taylor's shareholdings in the Company, the Non-executive directors are independent of management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. During 2014 Hopton Hill Limited, a company owned by Nicholas Taylor, and Anchusa Consulting Limited, a company owned by Annette Nabavi, provided consultancy support around the Proximity acquisition; however, given the limited nature of these engagements, the board does not consider it to have compromised their independence. Nicholas Taylor is the senior independent director.

The board is satisfied that each of the Non-executive directors commits sufficient time to the fulfilment of their duties as a director of the Company.

The Executive directors are Eddie Buxton who is Chief executive, Angus McCaffery is Sales and marketing director, Dale Todd is Finance director and Kevin Stevens is Operations director. Reflecting the growth in the Group and its focus on technological developments, Mr Stevens was appointed to the board on 1 January 2014.

The directors' biographies on page 16 demonstrate the range and depth of experience they bring to the Group.

The board meets regularly, normally monthly, and both reviews operations and assesses future strategy for the eight operating subsidiaries and for the Group as a whole. It operates to a schedule of matters specifically reserved for its decision.

The Company's articles of association require that Eddie Buxton, Kevin Stevens and Nicholas Taylor retire by rotation at the forthcoming annual general meeting and they offer themselves for re-election at the meeting. Darren Boyce and Annette Nabavi, each having been appointed since the last AGM, are also required to be re-elected. Although not required to retire this year in accordance with the articles, revised corporate governance guidance recommends that non-executive directors with more than 9 years service are re-elected annually, and John Booth, having been a director since 1996, also offers himself for re-election.

The Company has purchased insurance to cover its directors and officers against any costs they may incur in defending themselves in any legal proceedings instigated against them as a direct result of duties carried out on behalf of the Company. The insurance does not provide cover in the event that a director is proved to have acted fraudulently or dishonestly.

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

The following committees deal with specific aspects of the Group's affairs:

Audit committee

The audit committee is chaired by Nicholas Taylor with John Booth being the other member throughout the year and Annette Nabavi joining in October and Darren Boyce joining in November 2014. The board is satisfied that for the year under review and thereafter Mr Taylor has adequate recent and relevant commercial and financial knowledge and experience to chair the committee; it also considers that Mrs Nabavi has such knowledge and experience.

The remit of the committee is to:

- consider the continued appointment of the external auditors, and their fees, terms of engagement and independence, including the appointment of the auditors to undertake non-audit work.
- liaise with the external auditors in relation to the nature and scope of the audit.
- review the form and content of the financial statements and any other financial announcements issued by the Company.
- review any comments and recommendations received from the external auditors.
- review the Company's statements on internal control systems and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

The audit committee convenes at least twice a year to review the 6 monthly and annual financial statements and at these meetings in 2014 Eddie Buxton, Dale Todd (who acts as secretary to the committee) and the external auditors attended by invitation, Annette Nabavi also attending the meeting in September by invitation.

In 2014 it also liaised informally with the Executive directors in relation to published financial information and other audit-related matters. Nicholas Taylor, Annette Nabavi and Darren Boyce together met with the external auditors in the absence of executive management.

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

- the external auditors' year-end report for 2013, the review of the Group's preliminary results in 2014 and the disclosures in the 2013 annual report.
- the external audit plan for the 2014 financial statements which included a review of the audit objectives, scope, timetable and deliverables.
- the re-appointment of BDO LLP as external auditors, their independence and objectivity and their fee.
- consideration of the external auditors' observations on the internal financial controls arising from their annual audit.

BDO LLP is retained to perform audit and audit-related work for the Group. The committee monitors the nature and extent of non-audit work undertaken by the auditors, including reviewing the letter of independence provided by the auditors annually which includes details of audit and non-audit work undertaken. The committee is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. Details of audit and non-audit fees for the period under review are shown in note 6 of the financial statements.

Report on corporate governance continued

Remuneration committee

Annette Nabavi assumed the role of chair of the remuneration committee in November. It was previously chaired by Nicholas Taylor who remains a member, its other member being John Booth. The committee met four times during the year. The committee's report to shareholders on directors' remuneration is set out on page 22.

Nomination committee

The nomination committee had two members during 2014, both Non-executive, being John Booth, Chairman, and Nicholas Taylor. The committee meets as required and met twice in 2014, to agree recommendations to the board which resulted in the appointment of Annette Nabavi and Darren Boyce as Non-executive directors. Its terms of reference include:

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

Board attendances

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

	Board	Audit committee	Remuneration committee	Nomination committee
Number of meetings in the year	16	2	4	2
J Booth	14	2	4	2
D Boyce	2			
E Buxton	16			
A McCaffery	14			
A Nabavi	9		1	
K Stevens	15			
N Taylor	16	2	4	2
D Todd	16			

Conflicts of interest

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

Relationship with shareholders

The Chairman's statement and the Strategic report on pages 2 to 15 include a detailed review of the business and future developments.

In addition to regular financial reporting, significant matters relating to trading or development of the business are released to the market by way of Stock Exchange announcements as required.

The directors meet with institutional and other shareholders when possible, usually following the announcement of the Company's results, to keep them informed about the performance and objectives of the business. Nicholas Taylor also attends shareholder meetings representing the Non-executive directors, to better understand the shareholders' views.

The annual general meeting provides a further forum for shareholders to communicate with the board. Details of resolutions to be proposed at the annual general meeting are set out in the notice of meeting on page 60.

Internal control

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

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

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

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

The board undertakes a rolling review of known and potential risks, and addresses newly identified risks as they arise, with controls put in place to minimise their potential effect on the Group.

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

Operating control

Each Executive director has defined responsibility for specific aspects of the Group's operations. The Executive directors, together with key senior executives, meet regularly to discuss day-to-day operational matters.

Investment appraisal

Capital expenditure is controlled via the budgetary process, the budget being approved by the board. Expenditure is approved as required by the Chief executive. Acquisitions and significant unbudgeted capital expenditure are reviewed by the board as they arise.

Risk management

The board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage these risks. The Group's approach to financial risk management is further explained in note 22 to the financial statements.

Going concern

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

Report of the remuneration committee

The remuneration committee's remit is to measure the performance of, and determine remuneration policy relating to directors and senior employees, and to support this responsibility it has access to professional and other advice external to the Group. Taking these factors into account, it then makes recommendations to the board.

The committee consists of three Non-executive directors, Annette Nabavi (chair of the committee), Nicholas Taylor and John Booth, and met four times during 2014.

Remuneration policy

The Group's Executive director remuneration policy is designed to attract and retain directors of the calibre required to maintain the Group's position in its marketplace.

The Executive director remuneration package consists of up to four elements:

(a) Basic salary

An Executive director's basic salary is determined by the remuneration committee at the beginning of each year. In deciding appropriate levels the committee considers the relative responsibilities of each of the directors. The basic salary of the Executive directors was increased with effect from 1 February 2015.

(b) Pension contributions and other benefits

Executive directors are entitled to employer pension contributions of 3% of basic salary, or additional salary in lieu thereof.

They also receive a car allowance and membership of private health, permanent health and life assurance schemes.

(c) Bonus

The Executive directors are eligible to receive bonuses, dependant on Group profitability and other performance criteria.

(d) Share options

Eddie Buxton, Kevin Stevens and Dale Todd have been granted share options, details of which are shown overleaf.

Directors' service agreements

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

Non-executive Directors

Annette Nabavi has a contract which expires in normal circumstances on 26 June 2017 but which is terminable on 3 months notice. Darren Boyce has a contract which expires in normal circumstances on 23 November 2015 but which is terminable on 3 months notice.

The remuneration of the Non-executive directors is agreed by the Executive directors, and is based upon the level of fees paid at comparable companies and taking account of the directors' evolving responsibilities. Taking these factors into account, the remuneration of the Non-executive directors also increased with effect from 1 February 2015. The Non-executives receive no payment or benefits other than their fees, although two were beneficiaries of consultancy fees during the year as described overleaf.

Directors remuneration

The remuneration of the directors in office at 31 December 2014 was as follows:

	Salaries/ fees	Benefits	Bonus	Pension contributions	Total 2014[1]	Total 2013[1,2]
J D S Booth	40	–	–	–	40	34
D K Boyce[3]	4	–	–	–	4	–
E Buxton	185	12	40	6	243	192
A J McCaffery	155	20	12	4	191	203
A P Nabavi[4]	13	–	–	–	13	–
K Stevens	109	11	38	3	161	–
N J Taylor[5]	30	–	–	–	30	20
W D Todd	154	12	30	3	199	180
	690	55	120	16	881	629

(1) Excluding social security costs in respect of the above amounting to £109,000 (2013: £79,000), and excluding gains on the exercise of share options in the year of £182,000 (2013: £Nil).

(2) Including bonuses of £86,000, employer pension contributions of £8,000 and benefits of £43,000, so that salaries amounted to £492,000.

(3) In addition to his fees as a director stated above, Proximity Communications Ltd paid £14,000 plus £1,000 expenses to a company of which Mr Boyce is a shareholder and director in respect of consultancy services provided to Proximity following its acquisition.

(4) In addition to her fees as a director stated above, the Company paid £13,120 to a company of which Mrs Nabavi is a shareholder and director in respect of consultancy services provided to the Company during the year.

(5) In addition to his fees as a director stated above, the Company paid £20,000 to a company of which Mr Taylor is a shareholder and director in respect of consultancy services provided to the Company during the year (2013: £44,000 plus £2,000 expenses).

The directors are the only employees of the Company.

Directors’ interests in ordinary shares

The directors’ interests in the ordinary shares of the Company are shown in the directors’ report on page 25. These include holdings under the Company’s Share Incentive Plan, to which all of the directors subscribe apart from Non-executive directors Mrs Nabavi and Mr Boyce.

Share options

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

Option holder	Number of shares	Date of grant	Option price	Expiry of option
Eddie Buxton	53,909	18 May 2009	100p	18 May 2019
Eddie Buxton	107,818	18 May 2009	200p	18 May 2019
Eddie Buxton	107,818	18 May 2009	300p	18 May 2019
Kevin Stevens	10,000	29 May 2014	530p	29 May 2024
Dale Todd	10,000	17 April 2013	345p	17 April 2023
Dale Todd	10,000	19 December 2013	525p	19 December 2023

All options have vested. No charge has been made to the income statement in respect of the option granted during the year, as this is immaterial.

Report of the remuneration committee continued

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

	2014 Number of options	2014 WAEP	2013 Number of options	2013 WAEP
Outstanding at the beginning of the year	329,545	233p	309,545	220p
Granted during the year	10,000	530p	20,000	435p
Exercised during the year	(40,000)	220p	–	–
Outstanding at the end of the year	299,545	245p	329,545	233p

The Company's mid-market share price at 31 December 2014 was 675p per share, and the high and low prices during the year were 687.5p and 497.5p respectively.

Share Incentive Plan

In 2006 the Company established the Maintel Holdings Plc Share Incentive Plan ("SIP"). The SIP is open to all employees with at least 6 months' continuous service with a Group company, and allows employees and directors to subscribe for existing shares in the Company at open market price out of their gross salary. The employees own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan. At 31 December 2014 there were 89,747 shares held by the SIP, representing 0.8% of the issued share capital of the Company (2013: 88,039 and 0.8%).

The report of the remuneration committee was approved by the board on 6 March 2015.

A P Nabavi
Chair of the remuneration committee

Report of the directors
for the year ended 31 December 2014

The directors present their annual report together with the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activities of the Group continue to be the provision of contracted managed services, the sale and installation of telecommunications systems and the provision of fixed line, mobile and data telecommunications services, predominantly to the enterprise business sector. In October 2014 the Company acquired Proximity Communications Limited, which is registered in and primarily operates in the UK.

Results and dividends

The consolidated statement of comprehensive income is set out on page 29 and shows the profit of the Group for the year.

During the year the Company paid a final dividend of 9.0p per ordinary share in respect of the 2013 financial year, amounting to £961,000 (2013: 7.3p, amounting to £779,000), and an interim dividend in respect of 2014 of 9.3p per share, amounting to £993,000 (2013: 6.7p and £715,000 respectively). The directors propose the payment of a final dividend in respect of 2014 of 11.6p per share. The cost of the proposed dividend, based on the number of shares in issue as at 6 March 2015 is £1.243m.

Strategic report

A review of the business and future developments of the Group is set out in the Strategic report on pages 4 to 15.

Directors

The directors of the Company as at 31 December 2014 and their interests in the ordinary shares of the Company at that date were as follows:

	Number of 1p ordinary shares			
	2014		2013	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
J D S Booth	2,759,674	–	2,759,015	–
D K Boyce	–	–	–	–
E Buxton	4,225	85,522	3,756	84,283
A J McCaffery	2,055,085	–	2,054,509	–
A P Nabavi	–	–	–	–
K Stevens	2,334	–	1,983	–
N J Taylor	15,368	81,379	14,759	80,280
W D Todd	47,397	82,350	6,821	81,218

J D S Booth is a shareholder in Herald Investment Trust plc which has notified the Company of its holding of 760,000 1p ordinary shares in the Company; this is in addition to Mr Booth's beneficial holding above.

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

Since the year end, the Share Incentive Plan has sold a net 3,056 shares in total, and purchased 70 in respect of Kevin Stevens. There were no other changes in the directors' shareholdings between 31 December 2014 and 6 March 2015.

Report of the directors continued

Substantial shareholders

In addition to the directors' shareholdings, at 6 March 2015 the Company had been notified of the following shareholdings of 3% or more in the ordinary share capital of the Company:

	Number of 1p ordinary shares	% of issued ordinary shares
J A Spens	1,616,747	15.1%
Marlborough Fund Managers Ltd	1,287,314	12.0%
Herald Investment Trust plc	760,000	7.1%
Octopus Investments Limited	424,684	4.0%

Share capital

Details of the share capital of the Company are shown in note 23 of the financial statements.

40,000 shares were issued in the year on the exercise of share options; no shares were repurchased during the year.

An option over 10,000 shares was granted in the year.

The existing authority for the repurchase of the Company's shares is for the purchase of up to 1,600,119 shares. A fresh authority, for the purchase of up to 1,606,115 shares, will be sought at the forthcoming annual general meeting.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 22 of the financial statements.

Annual general meeting

The annual general meeting of the Company will be held at its offices on 28 April at 10.00am.

Auditors

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

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

On behalf of the board

E Buxton
Director

6 March 2015

Statement of directors' responsibilities

Directors' responsibilities

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

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

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

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

Website publication

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

Independent auditors' report

to the shareholders of Maintel Holdings Plc

We have audited the financial statements of Maintel Holdings Plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position and company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Anthony Perkins (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

6 March 2015

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

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
Revenue	3	41,890	31,124
Cost of sales		26,292	19,526
Gross profit		15,598	11,598
Administrative expenses			
Intangibles amortisation	14	1,472	898
Exceptional costs	12	809	691
Other administrative expenses		9,375	6,336
		11,656	7,925
Operating profit	6	3,942	3,673
Financial income	7	2	2
Financial expense	7	(135)	(32)
Profit before taxation		3,809	3,643
Taxation		865	978
Profit and total comprehensive income attributable to owners of the parent		2,944	2,665
Earnings per share			
Basic	10	27.6p	25.0p
Diluted	10	27.2p	24.7p

The notes on pages 33 to 53 form part of these financial statements

Consolidated statement of financial position

at 31 December 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Non current assets					
Intangible assets	14		20,367		10,988
Property, plant and equipment	16		314		289
			20,681		11,277
Current assets					
Inventories	17	1,436		845	
Trade and other receivables	18	12,419		8,961	
Cash and cash equivalents		3,347		544	
Total current assets			17,202		10,350
Total assets			37,883		21,627
Current liabilities					
Trade and other payables	19		23,309		15,211
Current tax liabilities			828		638
Total current liabilities			24,137		15,849
Non current liabilities					
Deferred tax liability	21		1,242		149
Borrowings	20		7,500		1,750
Total net assets			5,004		3,879
Equity					
Issued share capital	23		107		107
Share premium	24		1,116		1,028
Capital redemption reserve	24		31		31
Translation reserve			47		-
Retained earnings	24		3,703		2,713
Total equity			5,004		3,879

The financial statements were approved and authorised for issue by the board on 6 March 2015 and were signed on its behalf by:

W D Todd
Director

The notes on pages 33 to 53 form part of these financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 31 December 2012	107	1,028	31	–	1,542	2,708
Profit and total comprehensive income for the year	–	–	–	–	2,665	2,665
Dividend	–	–	–	–	(1,494)	(1,494)
At 31 December 2013	107	1,028	31	–	2,713	3,879
Profit and total comprehensive income for the year	–	–	–	–	2,944	2,944
Foreign currency translation differences	–	–	–	47	–	47
Dividend	–	–	–	–	(1,954)	(1,954)
Issue of new ordinary shares	–	88	–	–	–	88
At 31 December 2014	107	1,116	31	47	3,703	5,004

The notes on pages 33 to 53 form part of these financial statements

Consolidated statement of cash flows

for the year ended 31 December 2014

	2014 £000	2013 £000
Operating activities		
Profit before taxation	3,809	3,643
Adjustments for:		
Intangibles amortisation	1,472	898
Profit on sale of fixed asset	(1)	–
Depreciation charge	184	135
Interest receivable	(2)	(2)
Interest payable	135	32
Operating cash flows before changes in working capital	5,597	4,706
Increase in inventories	(94)	(36)
Decrease/(increase) in trade and other receivables	1,403	(1,253)
Increase/(decrease) in trade and other payables	197	(1,306)
Cash generated from operating activities	7,103	2,111
Tax paid	(1,049)	(1,148)
Net cash flows from operating activities	6,054	963
Investing activities		
Purchase of plant and equipment	(87)	(89)
Proceeds from disposal of plant and equipment	6	–
Purchase price in respect of business combination	(11,994)	(3,500)
Net cash acquired with subsidiary undertaking	3,526	3
	(8,468)	(3,497)
Interest receivable	2	2
Net cash flows from investing activities	(8,547)	(3,584)
Financing activities		
Proceeds from borrowings	10,000	3,000
Repayment of borrowings	(2,750)	(250)
Interest payable	(135)	(32)
Issue of new ordinary shares	88	–
Equity dividends paid	(1,954)	(1,494)
Net cash flows from financing activities	5,249	1,224
Net increase/(decrease) in cash and cash equivalents	2,756	(1,397)
Cash and cash equivalents at start of period	544	1,941
Exchange differences	47	–
Cash and cash equivalents at end of period	3,347	544

The notes on pages 33 to 53 form part of these financial statements

Notes forming part of the financial statements

for the year ended 31 December 2014

1. General information

Maintel Holdings Plc is a public limited company incorporated and domiciled in the UK, whose shares are publicly traded on the Alternative Investment Market (AIM). Its registered office and principal place of business is 61 Webber Street, London SE1 0RF.

2. Accounting policies

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies preparing their accounts in accordance with adopted IFRSs. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP and these are presented on page 54.

In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of accounting policies. The principal accounting policies set out below have been consistently applied to all the periods presented.

(b) Basis of consolidation

The financial statements consolidate the results of Maintel Holdings Plc and each of its subsidiaries (the "Group"). The results of subsidiaries acquired are included within the consolidated statement of comprehensive income and consolidated statement of financial position from the effective date of acquisition. Uniform accounting policies are adopted in each subsidiary for the purposes of consolidation. The results of disposed subsidiaries are included in the statement of comprehensive income up to the effective date of disposal. All intra-group transactions and balances are eliminated on consolidation. Acquisitions are accounted for using the acquisition method of accounting.

Subsidiaries are all entities over which the Group has the ability to control to govern their financial and operating policies.

(c) Revenue

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

Revenue represents sales to customers at invoiced amounts and commissions receivable from suppliers, less value added tax. Revenue from sales of equipment, chargeable works carried out and network services is recognised when the goods or services are provided. Amounts invoiced in advance in respect of managed service contracts are deferred and released to the statement of comprehensive income on a straight line basis over the period covered by the invoice. Connection commissions received from mobile network operators are recognised (a) where commission is payable in advance, when the customer contract has been accepted by the network operator and is therefore legally binding, less an allowance for expected future clawbacks, and (b) where commission is payable on a monthly basis, in the month to which commission relates.

Notes forming part of the financial statements continued

for the year ended 31 December 2014

2. Accounting policies continued

(d) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of the consideration of a business combination over the acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed on or after 1 January 2010, the fair value of the consideration comprises the fair value of assets given. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

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

Other intangible assets

Intangible assets are stated at cost, or fair value where acquired through a business combination, less accumulated amortisation and consist of customer relationships. Where these assets have been acquired through a business combination, the cost will be the fair value allocated in the acquisition accounting; where they have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

(e) Impairment of non-current assets

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

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

(f) Property, plant and equipment

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

Office and computer equipment	– 25% straight line
Motor vehicles	– 25% straight line
Leasehold improvements	– over the remaining period of the lease

(g) Inventories

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

(h) Cash and cash equivalents

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

(i) Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is more probable than not that future taxable profits will be available against which the asset can be utilised.

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

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

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

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

(j) Financial assets and liabilities

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

Cash comprises cash in hand and deposits held at call with banks.

Borrowings are described in (k) below.

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

Trade and other payables are not interest bearing and are stated at their nominal amount.

(k) Borrowings

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

(l) Operating leases

Rentals payable are charged to the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Notes forming part of the financial statements continued
for the year ended 31 December 2014

2. Accounting policies continued

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

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

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

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

(o) Accounting standards issued
There are no IFRSs that are effective for the first time during the financial year that have a material effect on the financial statements, nor are there any impending IFRSs that are expected to have a material effect on the Group's financial statements.

The Group notes IFRS 15 *Revenue from Contracts with Customers* which takes effect and will be adopted in 2017. Having considered the Group's revenue streams and current recognition policies, as disclosed in (c) above, it is the directors' preliminary assessment that no material impact is expected following the move from recognition of revenue on the transfer of risks and rewards to the transfer of control.

(p) Contingent consideration
Where payment of contingent consideration in respect of a business combination or acquisition of business and assets is dependent on the continued employment by the Group of the seller(s), the estimated contingent consideration is pro rated in accordance with the period of employment required of the seller and this amount is expensed in the income statement.

(q) Foreign currency
The presentation currency of the Group is sterling. All Group companies have a functional currency of sterling (other than Datapoint Communications Limited ("DCL") which has a functional currency of the Euro) consistent with the presentation currency of the Group's financial statements. Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transactions.

On consolidation, the results of DCL are translated into sterling at rates approximating those ruling when the transactions took place. All assets and liabilities of DCL, including goodwill arising on its acquisition, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of DCL at actual rate were not material in the year and are recognised in the statement of comprehensive income and the translation reserve.

(r) Exceptional items
Exceptional items are items of income or expense that are disclosed separately in the financial statements where it is necessary to do so to show the underlying operational performance of the business in the absence of acquisition, integration or other one-off items.

(s) Interest
Interest income and expense is recognised on an accruals basis.

3. Segment information

For management reporting purposes and operationally, the Group consists of three business segments: (i) telecommunications managed service and equipment sales, (ii) telecommunications network services, and (iii) mobile services. Each segment applies its respective resources across inter-related revenue streams which are reviewed by management collectively under these headings. The businesses of each segment and a further analysis of revenue are described under their respective headings in the Strategic report. The Datapoint business is reported under the managed service and equipment division as it is managed and measured as part of that division; Proximity is similarly reported apart from £98,000 of revenue and its associated margin which relates to the network services segment.

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

Year ended 31 December 2014	Managed service and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	31,993	7,156	2,907	(166)	41,890
Operating profit before customer relationship intangibles amortisation and exceptional costs	4,418	1,027	764	14	6,223
Customer relationship intangibles amortisation	(252)	(28)	–	(1,192)	(1,472)
Exceptional costs	(312)	–	–	(497)	(809)
Operating profit	3,854	999	764	(1,675)	3,942
Interest (net)					(133)
Profit before taxation					3,809
Taxation					(865)
Profit and total comprehensive income for the period					2,944

Revenue is wholly attributable to the principal activities of the Group and other than sales of £3,291,000 to EU countries and £378,000 to the rest of the world (2013: £973,000 to EU countries and £151,000 to the rest of the world), arises within the United Kingdom.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £81,000 (2013: £90,000) attributable to the managed service and equipment segment, £79,000 (2013: £82,000) to the network services segment and £6,000 (2013: £3,000) to the mobile segment.

In 2014 the Group had two customers (2013: two) which accounted for more than 10% of its revenue, one accounting for £5.317m and the other £4.311m (2013: £5.419m and £4.258m).

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

	Managed service and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Capital expenditure	87	–	–	–	87
Depreciation	183	–	1	–	184
Amortisation	252	28	–	1,192	1,472

Notes forming part of the financial statements continued

for the year ended 31 December 2014

3. Segment information continued

Year ended 31 December 2013	Managed service and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	21,764	6,938	2,597	(175)	31,124
Operating profit before customer relationship intangibles amortisation and exceptional costs	3,246	1,101	931	(16)	5,262
Customer relationship intangibles amortisation	(251)	(49)	–	(598)	(898)
Exceptional expenses	(120)	–	–	(571)	(691)
Operating profit	2,875	1,052	931	(1,185)	3,673
Interest (net)					(30)
Profit before taxation					3,643
Taxation					(978)
Profit and total comprehensive income for the period					2,665

	Managed service and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Capital expenditure	89	–	–	–	89
Depreciation	133	–	2	–	135
Amortisation	251	49	–	598	898

4. Employees

	2014 Number	2013 Number
The average number of employees, including directors, during the year was:		
Corporate and administration	36	26
Sales and customer service	80	72
Technical and engineering	125	96
	241	194
Staff costs, including directors, consist of:	**£000**	**£000**
Wages and salaries	13,082	9,891
Social security costs	1,545	1,168
Pension costs	293	188
	14,920	11,247

The Group makes contributions to defined contribution personal pension schemes for employees and directors. The assets of the schemes are separate from those of the Group. Pension contributions totalling £50,000 (2013: £41,000) were payable to the schemes at the year end and are included in other payables.

5. Directors' remuneration

The remuneration of the Company directors was as follows:

	2014 £000	2013 £000
Directors' emoluments	865	621
Social security costs	109	79
Pension contributions	16	8
	990	708

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

	2014 £000	2013 £000
Directors' emoluments	196	199
Pension contributions	3	4
	199	203

The Group paid contributions into defined contribution personal pension schemes in respect of 6 directors during the year, two of which were auto-enrolled at minimal contribution levels (2013: 2, none auto-enrolled).

The aggregate amount of gains made by directors on the exercise of share options in the year was £182,000 (2013: £Nil), all of which related to the highest paid director. The above table excludes these amounts.

Further details of director remuneration are shown in the remuneration committee report on page 22.

6. Operating profit

This has been arrived at after charging:

	2014 £000	2013 £000
Depreciation of property, plant and equipment	184	135
Amortisation of intangible fixed assets	1,472	898
Operating lease rentals:		
– property	515	274
– plant and machinery	94	101
Fees payable to the Company's auditor for the audit of the Company's annual accounts	9	8
Fees payable to the Company's auditor for other services:		
– due diligence and other acquisition costs	107	95
– audit of the Company's subsidaries pursuant to legislation	110	95
– audit-related assurance services	19	18
– tax compliance services	6	6
Foreign exchange gain	47	4

Notes forming part of the financial statements continued

for the year ended 31 December 2014

7. Financial income and expense

	2014 £000	2013 £000
Interest receivable on bank deposits	2	2
Interest payable on bank loans	135	32

8. Taxation

	2014 £000	2013 £000
UK corporation tax		
Corporation tax on profits of the period	977	1,114
Prior year adjustment	–	7
	977	1,121
Deferred tax (note 21)	(112)	(143)
Taxation on profit on ordinary activities	865	978

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014, and the Group's UK subsidiaries are therefore taxed at a rate of 21.5% for the year. A further reduction in rate to 20% with effect from 1 April 2015 was substantively enacted on 2 July 2013 and has not been adjusted for in these financial statements, as the effects are immaterial. The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2014 £000	2013 £000
Profit before tax	3,809	3,643
Profit at the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	819	847
Effect of:		
Expenses not deductible for tax purposes	109	141
Capital allowances in excess of depreciation	(36)	(11)
Effects of change in tax rates	(17)	–
Effects of overseas tax rates	(5)	–
Prior year adjustment	–	7
Other timing differences	(5)	(6)
	865	978

9. Dividends paid on ordinary shares

	2014 £000	2013 £000
Final 2012, paid 25 April 2013 – 7.3p per share	–	779
Interim 2013, paid 11 October 2013 – 6.7p per share	–	715
Final 2013, paid 24 April 2014 – 9.0p per share	961	–
Interim 2014, paid 3 October 2014 – 9.3p per share	993	–
	1,954	1,494

The directors propose the payment of a final dividend for 2014 of 11.6p (2013: 9.0p) per ordinary share, payable on 1 May 2015 to shareholders on the register at 20 March 2015. The cost of the proposed dividend, based on the number of shares in issue as at 6 March 2015, is £1.243m (2013: £961,000).

10. Earnings per share

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

	2014 £000	2013 £000
Earnings used in basic and diluted EPS, being profit after tax	2,944	2,665
Adjustments:		
Amortisation of intangibles	1,472	898
Exceptional costs (note 12)	809	691
Tax relating to above adjustments	(396)	(244)
Deferred tax charge on Datapoint profits	161	–
Adjusted earnings used in adjusted EPS	4,990	4,010

Datapoint has brought forward tax losses, so that it will pay no tax in respect of its 2014 profits. On acquisition, however, a deferred tax asset was recognised in respect of its tax losses, and a deferred tax charge has been recognised in the income statement in respect of the year's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

	2014 Number (000s)	2013 Number (000s)
Weighted average number of ordinary shares of 1p each	10,676	10,675
Potentially dilutive shares	165	125
	10,841	10,800
Earnings per share		
Basic	27.6p	25.0p
Basic and diluted	27.2p	24.7p
Adjusted – basic but after the adjustments in the table above	46.7p	37.6p
Adjusted – basic and diluted after the adjustments in the table above	46.0p	37.1p

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

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

Notes forming part of the financial statements continued
for the year ended 31 December 2014

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

	2014 £000	**2013 £000**
Profit before tax	3,809	3,643
Net interest payable	133	30
Depreciation of property, plant and equipment	184	135
Amortisation of customer relationship intangibles	1,472	898
EBITDA	5,598	4,706
Exceptional costs	809	691
Adjusted EBITDA	6,407	5,397

12. Exceptional costs
Legal and professional fees of £497,000 were incurred in relation to the acquisition of Proximity Communications Limited in October 2014 (2013: £571,000 incurred in relation to the acquisition of the Datapoint companies in September 2013). Redundancy costs of £312,000 have been incurred as a result of synergies achieved following the acquisitions (2013: £120,000). These costs, totalling £809,000 (2013: £691,000), have been shown as exceptional costs in the income statement as they are not normal operating expenses.

13. Business combinations
On 24 October 2014 the Company acquired the entire share capital of Proximity Communications Limited at the following provisional aggregate valuations:

	£000
Purchase consideration	
Cash	11,994
Assets and liabilities acquired	
Tangible fixed assets	127
Inventories	497
Trade and other receivables	4,861
Cash	3,526
Trade and other payables	(6,646)
	2,365
Customer relationships	5,698
Deferred tax on customer relationships	(1,197)
Net assets and liabilities acquired	6,866
Goodwill	5,128

Cash flows arising from the acquisition were as follows:	**£000**
Purchase consideration settled in cash	(11,994)
Direct acquisition costs (note 12)	(497)
Cash balances acquired	3,526
	(8,965)

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

The customer relationships are estimated to have a useful life of six years based on the directors' experience of comparable contracts and are therefore amortised over that period and are subject to an annual impairment review. A deferred tax liability of £1.197m has been recognised above which is being credited to the income statement pro rata to the amortisation of the customer relationships. The amortisation charge in 2014 is £158,000.

The trade and other receivables are stated at gross valuation, no provisions being made against them.

Since its acquisition, Proximity has contributed the following to the results of the Group before management charges of £60,000:

	£000
Revenue	1,886
Profit before tax	262

Proximity's revenue for the year ended 31 December 2014 was £12.295m and before management charges, its profit before tax was £1.379m.

The Group incurred £497,000 of third party costs related to this acquisition. These costs are included in administrative expenses in the consolidated statement of comprehensive income.

On 13 September 2013 the Company acquired the entire share capital of Datapoint Customer Solutions Limited, Datapoint Global Services Limited and Datapoint Communications Limited at the following provisional aggregate valuations:

	£000
Purchase consideration	
Cash	3,500
Assets and liabilities acquired	
Tangible fixed assets	119
Trade and other recievables	1,915
Cash	3
Trade and other payables	(6,314)
	(4,277)
Customer relationships	3,695
Deferred tax on customer relationships	(776)
Deferred tax asset relating to historic tax losses	1,065
Total assets and liabilities acquired	(293)
Fair value adjustment (see below)	117
Net assets and liabilities acquired	(176)
Goodwill	3,676

A further £25,000 of goodwill was recognised in 2014 in respect of a previously unaccrued pre-acquisition liability resulting in aggregate goodwill of £3.701m.

Notes forming part of the financial statements continued

for the year ended 31 December 2014

13. Business combinations continued

Cash flows arising from the acquisition were as follows:

	£000
Purchase consideration settled in cash	(3,500)
Direct acquisition costs (note 12)	(571)
Cash balances acquired	3
	(4,068)

The Datapoint companies were acquired to complement and extend the Group's existing offerings of telecommunications and data services and enable further cross-selling to and from other Group operations. The goodwill is attributable to the cross-selling opportunities and cost synergies that are expected to be achieved from sharing the expertise and resource of Maintel with that of Datapoint and vice versa.

The customer relationships are estimated to have a useful life of six years based on the directors' experience of comparable contracts and are therefore amortised over that period and are subject to an annual impairment review. A deferred tax liability of £776,000 was recognised above which is being credited to the income statement pro rata to the amortisation of the customer relationships. The intangible amortisation charge in 2014 is £616,000 (2013: £180,000) and the associated tax credit was £129,000 (2013: £38,000).

The fair value adjustment relates to the inventories held by Datapoint at the date of acquisition, revalued to their fair market value.

The trade and other receivables were stated at gross valuation, no provisions being made against them.

14. Intangible assets

	Goodwill £000	Customer relationships £000	Total £000
Cost			
At 1 January 2013	1,343	5,859	7,202
Acquired in the year	3,676	3,695	7,371
At 31 December 2013	5,019	9,554	14,573
Acquired in the year	5,128	5,698	10,826
Adjustment to Datapoint goodwill	25	–	25
At 31 December 2014	10,172	15,252	25,424
Amortisation and impairment			
At 1 January 2013	317	2,370	2,687
Amortisation in the year	–	898	898
At 31 December 2013	317	3,268	3,585
Amortisation in the year	–	1,472	1,472
At 31 December 2014	317	4,740	5,057
Net book value			
At 31 December 2014	9,855	10,512	20,367
At 31 December 2013	4,702	6,286	10,988

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

Goodwill

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

	2014 £000	2013 £000
Network services division	443	202
Managed service and equipment division	8,861	3,949
Mobile division	551	551
	9,855	4,702

Goodwill of £227,000 arising on the acquisition of Pinnacle Voice and Data Limited (since renamed Maintel Network Solutions Limited) in December 2005 was capitalised at 31 December 2005, as was the related deferred payment of £147,000 in 2006, the aggregate being subject to an annual impairment review which has resulted in no charge in 2014 (2013: £Nil) and a carrying value of £202,000.

Goodwill of £290,000 arose on the acquisition of District Holdings Limited in June 2006. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2014 (2013: £Nil) and the carrying value is £145,000.

Goodwill of £128,000 arose on the Redstone acquisition in October 2010. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2014 (2013: £Nil) and the carrying value is £128,000.

Goodwill of £551,000 arose on the Maintel Mobile acquisition in October 2011. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2014 (2013: £Nil) and the carrying value is £551,000.

Goodwill of £3.676m arose on the Datapoint acquisition in September 2013, and a further £25,000 was allocated to the balance during 2014. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2014 (2013: £Nil) so the carrying value is £3.701m.

Goodwill of £5.128m arose on the Proximity acquisition in October 2014. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2014 so the carrying value is £5.128m.

For the purposes of the impairment review of goodwill, the net present value of the projected future cash flows of the relevant cash generating unit are compared with the carrying value; where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. Projected operating margins for this purpose are based on a five year horizon and 3% rate of growth, and a discount rate of 10% is applied to the resultant projected cash flows; the discount rate is based on conventional capital asset pricing model inputs. Sensitivity analysis using reasonable variations in the assumptions shows no indication of impairment.

£195,000 (gross) of the goodwill in the balance sheet of Maintel Europe Limited is eligible for tax relief, with relief being claimed against £10,000 of amortisation in 2014 (2013: £10,000), leaving a net balance of £156,000 available for future tax relief.

Fully amortised intangibles with a combined cost of £1.413m relating to the District Holdings Limited and Callmaster Limited acquisitions are included within intangibles and are still used within the business.

Notes forming part of the financial statements continued
for the year ended 31 December 2014

15. Subsidiaries
The Group consists of Maintel Holdings Plc and its subsidiary undertakings, including several which did not trade during the year. The following were the principal subsidiary undertakings at the end of the year and each has been included in the consolidated financial statements:

Maintel Europe Limited
Maintel Voice and Data Limited
Maintel Mobile Limited (previously Totility Limited)
Datapoint Customer Solutions Limited
Datapoint Global Services Limited
Datapoint Communications Limited
Proximity Communications Limited
Achilles Professional Services Limited

Each company is wholly owned and, other than Datapoint Communications Limited which is incorporated in the Republic of Ireland, is incorporated in England and Wales.

16. Property, plant and equipment

	Leasehold improvements £000	**Office and computer equipment £000**	**Motor vehicles £000**	**Total £000**
Cost or valuation				
At 1 January 2013	160	970	–	1,130
Additions	7	82	–	89
On acquisition of Datapoint	325	956	64	1,345
Disposals	–	(83)	-	(83)
At 31 December 2013	492	1,925	64	2,481
Additions	1	86	–	87
On acquisition of Proximity	78	490	–	568
Disposals	–	(26)	(17)	(43)
At 31 December 2014	571	2,475	47	3,093
Depreciation				
At 31 January 2013	112	802	–	914
Provided in year	33	97	5	135
On acquisition of Datapoint	312	886	28	1,226
Disposals	–	(83)	–	(83)
At 31 December 2013	457	1,702	33	2,192
Provided in year	35	135	14	184
On acquisition of Proximity	61	380	–	441
Disposals	–	(25)	(13)	(38)
At 31 December 2014	553	2,192	34	2,779
Net book value				
At 31 December 2014	18	283	13	314
At 31 December 2013	35	223	31	289

17. Inventories

	2014 £000	2013 £000
Maintenance stock	1,076	640
Stock held for resale	360	205
	1,436	845
Cost of inventories recognised as an expense	6,118	3,829

Provisions of £26,000 were made against the maintenance stock in 2014 (2013: £48,000), with no reversal of provisions having been made in either year.

18. Trade and other receivables

	2014 £000	2013 £000
Trade receivables	7,898	5,721
Other receivables	28	10
Prepayments and accrued income	4,493	3,230
	12,419	8,961

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

19. Trade and other payables

	2014 £000	2013 £000
Trade payables	4,896	2,819
Other tax and social security	1,849	1,325
Accruals	2,772	2,233
Other payables	399	575
Deferred managed service income	10,447	6,688
Other deferred income	446	571
Borrowings	2,500	1,000
	23,309	15,211

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

Notes forming part of the financial statements continued

for the year ended 31 December 2014

20. Borrowings

	2014 £000	2013 £000
Non-current bank loan – secured	7,500	1,750
Current bank loan – secured	2,500	1,000
	10,000	2,750

On 24 October 2014 the Group entered into a £13.0m facility agreement with Lloyds Bank plc to support the acquisition of Proximity, replacing its previous facilities with Lloyds. This is split between a £6.0m term loan and a £7.0m revolving credit facility, the latter incorporating a £1.0m overdraft facility.

The term loan is repayable in quarterly instalments over a 3 year period, the first instalment of £500,000 having been due in December 2014 but not taken by the lender until 9 January 2015. The revolving facility is due for renewal on 24 October 2017 and the overdraft facility, which was not drawn at 31 December 2014, is due for renewal on 1 November 2015.

The facilities are secured by a fixed and floating charge over the assets of the Company and its subsidiaries. Interest is payable on amounts drawn on the term loan and revolving credit facility at a variable rate of 2.25% per annum over LIBOR, with a reduced rate payable on undrawn facility. Interest is payable on amounts drawn under the overdraft facility at a rate of 2.25% over base rate.

Covenants based on adjusted EBITDA to net finance charges and net debt to EBITDA ratios are tested on a quarterly basis; these tests have been passed to date.

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

21. Deferred taxation

	Property, plant and equipment £000	Intangible assets £000	Tax losses £000	Other £000	Total £000
Net liability at 1 January 2013	(1)	594	–	(12)	581
Liability established against intangible assets acquired during the year	–	776	–	–	776
Asset relating to Datapoint tax losses	–	–	(1,065)	–	(1,065)
Charge/(credit) to consolidated statement of comprehensive income	4	(149)	–	2	(143)
Net liability at 31 December 2013	3	1,221	(1,065)	(10)	149
Liability established against intangible assets acquired during the year	–	1,197	–	–	1,197
Liability acquired with Proximity	8	–	–	–	8
Charge/(credit) to consolidated statement of comprehensive income	(1)	(274)	161	2	(112)
Net liability at 31 December 2014	10	2,144	(904)	(8)	1,242

The deferred tax liability represents (a) a liability established under IFRS on the recognition of an intangible asset in relation to the Maintel Mobile, Datapoint and Proximity acquisitions, and (b) the amount of depreciation provided in the accounts in excess of the tax value of capital allowances claimed, and is calculated using the tax rates at which the liabilities are expected to reverse.

The deferred tax asset predominantly relates to the anticipated use in the future of tax losses within the Datapoint companies which were acquired in 2013, based on estimates of those companies' future profitability and relevant tax rates. A change in tax rates in the future would increase or decrease the value of this asset.

The asset relating to the use of tax losses is based on the directors' judgment of a range of factors influencing their anticipated use. A further undiscounted deferred tax asset of £2.3m (2013: £2.5m) relating to tax losses has not been recognised on the grounds that there is insufficient evidence that the asset will be recoverable; use of these unrecognised losses would be increased by the Datapoint companies making more than the anticipated future profits and/or an increase in corporate tax rates.

Changes in tax rates and factors affecting the future tax charge

As described in note 8, the corporation tax rate will reduce from 21% to 20% from 1 April 2015, and the deferred tax balances at 31 December 2014 should therefore be recognised at 20%. This reduction would result in an increased deferred tax charge of £20,000 in the consolidated statement of comprehensive income, which is considered immaterial, and has therefore not been adjusted for.

Notes forming part of the financial statements continued

for the year ended 31 December 2014

22. Financial instruments

The Group's financial assets and liabilities mainly comprise cash, borrowings, trade and other receivables and trade and other payables, with smaller balances being recorded as other debtors and other creditors.

	Loans and receivables	
	2014 £000	**2013 £000**
Current financial assets		
Trade receivables	7,898	5,721
Cash and cash equivalents	3,347	544
Other receivables	28	10
	11,273	6,275

	Financial liabilities measured at amortised cost	
	2014 £000	**2013 £000**
Current financial liabilities		
Trade payables	4,896	2,819
Other payables	399	575
Secured bank loan	2,500	1,000
	7,795	4,394

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

Credit risk

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

At the reporting date, the largest exposure other than cash was represented by the carrying value of trade and other receivables, against which £218,000 is provided at 31 December 2014 (2013: £149,000). The provision represents an estimate of potential bad debt, goodwill credits and additional costs to completion to be incurred in respect of the year end trade receivables, a review having been undertaken of each such year end receivable. The largest individual receivable included in trade and other receivables at 31 December 2014 owed the Group £1.6m including VAT (2013: £2.3m). The Group's customers are spread across a broad range of sectors and consequently it is not otherwise exposed to significant concentrations of credit risk on its trade receivables.

The movement on the provision is as follows:

	2014 £000	**2013 £000**
Provision at start of year	149	136
Provision used	(27)	(44)
Additional provision made	96	57
Provision at end of year	218	149

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

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

	2014 £000	2013 £000
Up to 30 days overdue	1,590	1,653
31-60 days overdue	943	161
More than 60 days overdue	56	(125)
	2,589	1,689

The increase in the 31–60 day category relates primarily to one customer debt which has since been paid. Cash and cash equivalents at 2014 and 2013 year ends represented short-term deposits with Lloyds Bank plc.

Foreign currency risk

The functional currency of all Group companies is Sterling apart from Datapoint Communications Limited, one of the Datapoint companies acquired during 2013, which is registered in and operates from the Republic of Ireland and whose functional currency is the Euro. The consolidation of the results of that company is therefore affected by movements in the Euro/Sterling exchange rate. In addition, all Datapoint companies invoice certain customers and are invoiced by certain suppliers in Euros or Dollars, and those transactions are affected by exchange rate movements during the year but are not deemed material in a Group context.

Interest rate risk

The Group had borrowings of £10.0m at 31 December 2014 (2013: £2.75m), together with a £1.0m overdraft facility. The interest rate charged is related to LIBOR and bank rate respectively and will therefore change as those rates change. If interest rates had been 0.5% higher/lower during 2014, and all other variables were held constant, the Group's profit for the year would have been £21,000 higher/lower due to the variable interest element on the loan.

The Group expects to be in a net borrowing position in the immediate future, but invests any surplus cash in short-term bank deposits at prevailing rates of interest. The Group's interest income (£2,000 in each of 2014 and 2013) is therefore dependent on those prevailing rates, which were at a historically low level during these years.

Liquidity risk

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

Market risk

As noted above, the interest earned on short-term deposits is dependent on the prevailing rates of interest from time to time.

Fair value

The bank loan is due to be repaid within three years and the revolving credit facility expires within three years and all of the Group's other financial instruments are due to mature within one year and are subject to normal commercial credit and interest rate risk. There is no significant difference between the carrying amounts shown in the consolidated statement of financial position and the fair values of the Group's financial instruments.

Capital risk management

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

Notes forming part of the financial statements continued

for the year ended 31 December 2014

23. Share capital

	Authorised			
	2014 Number	**2013 Number**	**2014 £000**	**2013 £000**
Ordinary shares of 1p each	17,571,840	17,571,840	176	176

	Allotted, called up and fully paid			
	2014 Number	**2013 Number**	**2014 £000**	**2013 £000**
Ordinary shares of 1p each	10,714,578	10,674,578	107	107

24. Reserves

Share capital, share premium and retained earnings represent balances conventionally attributed to those descriptions.

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

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

The directors propose the payment of a final dividend in respect of 2014 of 11.6p per share; this dividend is not provided for in these financial statements.

25. Share Incentive Plan

The Company established the Maintel Holdings Plc Share Incentive Plan ("SIP") in 2006. The SIP is open to all employees with at least 6 months' continuous service with a Group company, and allows employees to subscribe for existing shares in the Company out of their gross salary. The shares are bought by the SIP on the open market. The employees own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan.

26. Share based payments

On 18 May 2009 the directors of the Company approved the adoption of the Maintel Holdings Plc 2009 Option Plan.

The remuneration committee's report on page 22 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 2.8% of the current issued share capital. The number of shares under option and the vesting and exercise prices may be adjusted at the discretion of the remuneration committee in the event of a variation in the issued share capital of the Company.

27. Operating leases

As at 31 December 2014, the Group had future minimum rentals payable under non-cancellable operating leases as set out below:

The total future minimum lease payments are due as follows:	**2014 Land and buildings £000**	**2014 Other £000**	**2013 Land and buildings £000**	**2013 Other £000**
Not later than one year	475	87	534	82
Later than one year and not later than five years	122	59	317	168
	597	146	851	250

The commitment relating to land and buildings is in respect of the Group's London, Dublin, Thatcham (and in 2013, Falkirk) offices. The remaining commitment relates to contract hired motor vehicles (which are typically replaced on a 3 year rolling cycle), office equipment and licencing of billing software.

28. Related party transactions

Transactions with key management personnel

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

	2014 £000	2013 £000
Short term employment benefits	1,573	1,132
Contributions to defined contribution pension schemes	36	20
	1,609	1,152

Transactions between the Company and its subsidiary undertakings

Transactions between Group companies are not disclosed as they have been eliminated on consolidation.

Other transactions

The Group traded during the year with A J McCaffery and K Stevens. Transactions in 2014 and 2013 amounted in aggregate to less than £1,500 in each case.

The Group traded during the year with The Imaginarium Studios Limited, a company in which J D S Booth is a director and shareholder. Imaginarium purchased telecommunication services from the Group in the year amounting to £3,233 net of VAT (2013: £5,011), of which £332 (2013: £348) was owed at the year end and is included in trade debtors.

The Company paid fees of £20,000 to Hopton Hill Limited, a company of which N J Taylor is a shareholder and director, in respect of consultancy services provided to the Company during the year in relation to the acquisition of Proximity (2013: £44,000 and £2,000 expenses in relation to the acquisition of the Datapoint companies).

The Company paid fees of £13,120 to Anchusa Consulting Limited, a company of which A P Nabavi is a shareholder and director, in respect of consultancy services provided to the Company during the year in relation to the acquisition of Proximity.

Proximity paid fees of £14,000 and £1,000 expenses to TCB Consulting, a company of which D K Boyce is a shareholder and director, in respect of consultancy services provided to the company following its acquisition.

The Group paid commissions in the year to J A Spens, a shareholder in the Company, amounting to £9,391 net of VAT (2013: £10,141), of which £784 (2013: £Nil) was owed at the year end and is included in trade creditors. These commissions relate to revenues earned by the Group following an introduction to a customer by Mr Spens.

29. Accounting estimates and judgements

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

Fair value of intangible assets acquired in business combinations

The valuation of intangible and certain other assets and liabilities on their acquisition requires management estimates and judgements similar to those used in assessing their impairment as described below. At 31 December 2014 the directors have also had to estimate the value of tax losses attributable to the Datapoint companies that might be used against future profits, shown in note 21, which involves estimating the companies' profitability and future tax rates.

Impairment

The Group assesses at each reporting date whether there is an indication that its intangible assets may be impaired. In undertaking such an impairment review, estimates are required in determining an asset's recoverable amount; those used are shown in note 14. These estimates include the asset's future cash flows and an appropriate discount to reflect the time value of money. The directors do not consider that in the normal course of events there is a likelihood that an impairment charge would be required.

Company balance sheet

at 31 December 2014 – prepared under UK GAAP

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Fixed assets					
Investment in subsidiaries	5		24,825		12,831
Current assets					
Debtors	6	518		821	
Cash at bank and in hand		948		3	
		1,466		824	
Creditors: amounts falling due within one year	7	9,018		3,372	
Net current liabilities			(7,552)		(2,548)
Non-current liabilities					
Borrowings	8		(7,500)		(1,750)
Total assets less current liabilities			9,773		8,533
Capital and reserves					
Called up share capital	9		107		107
Share premium	10		1,116		1,028
Capital redemption reserve	10		31		31
Profit and loss account	10		8,519		7,367
Shareholders' funds			9,773		8,533

The financial statements were approved and authorised for issue by the board on 6 March 2015 and were signed on its behalf by:

W D Todd
Director

The notes on pages 55 to 58 form part of these financial statements.

Notes forming part of the Company financial statements

for the year ended 31 December 2014

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and on the historical cost basis.

(b) Investments

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

The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of investment.

(c) Taxation

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

(d) Dividends

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

2. Employees

The directors' remuneration is shown in note 5 of the consolidated financial statements.

3. Profit for the financial period

The Company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit for the year of the Company, after tax and before dividends paid, was £3,106,000 (2013: £2,889,000).

4. Dividends paid on ordinary shares

	2014 £000	2013 £000
Final 2012, paid 25 April 2013 – 7.3p per share	–	779
Interim 2013, paid 11 October 2013 – 6.7p per share	–	715
Final 2013, paid 24 April 2014 – 9.0p per share	961	–
Interim 2014, paid 3 October 2014 – 9.3p per share	993	–
	1,954	1,494

The directors propose the payment of a final dividend for 2014 of 11.6p (2013: 9.0p) per ordinary share, payable on 1 May 2015 to shareholders on the register at 20 March 2015.

Notes forming part of the Company financial statements contd.
for the year ended 31 December 2014

5. Investment in subsidiaries

	Shares in subsidiary undertakings £000
Cost	
At 31 December 2013	12,911
Additions in the period	11,994
At 31 December 2014	24,905
Provision for impairment	
At 31 December 2013 and 31 December 2014	80
Net book value	
At 31 December 2014	24,825
At 31 December 2013	12,831

On 24 October 2014 the Company acquired the entire share capital of Proximity Communications Limited, for a gross consideration of £12.0m, paid in cash.

The following were the principal subsidiary undertakings at the end of the year:

Maintel Europe Limited
Maintel Voice and Data Limited
Maintel Mobile Limited
Datapoint Customer Solutions Limited
Datapoint Global Services Limited
Datapoint Communications Limited
Proximity Communications Limited
Achilles Professional Services Limited

Each company is wholly owned and, other than Datapoint Communications Limited which is incorporated in the Republic of Ireland, is incorporated in England and Wales.

6. Debtors

	2014 £000	2013 £000
Amounts owed by subsidiary undertakings	419	807
Other tax and social security	54	4
Prepayments and accrued income	22	2
Corporation tax recoverable	23	8
	518	821

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

7. Creditors

	2014 £000	2013 £000
Amounts due to subsidiary undertakings	6,391	2,351
Trade creditors	61	4
Accruals and deferred income	66	17
Borrowings	2,500	1,000
	9,018	3,372

8. Borrowings

	2014 £000	2013 £000
Non-current bank loans – secured	7,500	1,750
Current bank loans – secured	2,500	1,000
	10,000	2,750

On 24 October 2014 the Group entered into a £13.0m facility agreement with Lloyds Bank plc to support the acquisition of Proximity, replacing its previous facilities with Lloyds. This is split between a £6.0m term loan and a £7.0m revolving credit facility, the latter incorporating a £1.0m overdraft facility.

The term loan is repayable in quarterly instalments over a 3 year period, the first instalment of £500,000 having been due in December 2014 but not taken by the lender until 9 January 2015. The revolving facility is due for renewal on 24 October 2017 and the overdraft facility, which was not drawn at 31 December 2014, is due for renewal on 1 November 2015.

The facilities are secured by a fixed and floating charge over the assets of the Company and its subsidiaries. Interest is payable on amounts drawn on the term loan and revolving credit facility at a variable rate of 2.25% per annum over LIBOR, with a reduced rate payable on undrawn facility. Interest is payable on amounts drawn under the overdraft facility at a rate of 2.25% over base rate.

Covenants based on adjusted EBITDA to net finance charges and net debt to EBITDA ratios are tested on a quarterly basis; these tests have been passed to date.

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

Notes forming part of the Company financial statements contd.
for the year ended 31 December 2014

9. Share capital

	Authorised			
	2014 Number	2013 Number	2014 £000	2013 £000
Ordinary shares of 1p each	17,571,840	17,571,840	176	176

	Allotted, called up and fully paid			
	2014 Number	2013 Number	2014 £000	2013 £000
Ordinary shares of 1p each	10,714,578	10,674,578	107	107

The remuneration committee's report on page 22 of the consolidated accounts of Maintel Holdings Plc describes the options granted over the Company's ordinary shares.

10 . Reconciliation of movement in shareholders' funds

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2013	107	1,028	31	5,972	7,138
Profit for year	–	–	–	2,889	2,889
Dividends paid	–	–	–	(1,494)	(1,494)
At 31 December 2013	107	1,028	31	7,367	8,533
Profit for year	–	–	–	3,106	3,106
Dividends paid	–	–	–	(1,954)	(1,954)
Issue of new ordinary shares	–	88	–	–	88
At 31 December 2014	107	1,116	31	8,519	9,773

11. Related party transactions

Transactions with other Group companies have not been disclosed as permitted by FRS8, as the Group companies are wholly owned.

12. Contingent liabilities

As security on the Group's loan and overdraft facilities, the Company has entered into a cross guarantee with its subsidiary undertakings in favour of Lloyds Bank plc.

Directors, Company details and advisers

Directors

J D S Booth	Chairman, Non-Executive Director
D K Boyce	Non-Executive Director
E Buxton	Chief Executive
A J McCaffery	Sales and Marketing Director
A P Nabavi	Non-Executive Director
K Stevens	Operations Director
N J Taylor	Non-Executive Director
W D Todd	Finance Director

Secretary and registered office

W D Todd 61 Webber Street | London | SE1 0RF

Company Number

3181729

Auditors

BDO LLP 55 Baker Street | London | W1U 7EU

Nominated broker and nominated advisor

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

Registrars

Computershare Investor Services PLC
The Pavilions | Bridgwater Road | Bristol | BS99 6ZY
Tel: 0870 707 1182

Notice of annual general meeting

(the following does not form part of the statutory financial statements)

Notice is hereby given that the annual general meeting of Maintel Holdings Plc ("the Company") will be held at its offices at 61 Webber Street, London SE1 0RF, on 28 April 2015, at 10.00am, for the following purposes:

Ordinary business

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the financial statements of the Company for the year ended 31 December 2014, together with the strategic report, the report of the directors and the independent auditors' report thereon.

2. To approve the report of the remuneration committee for the year ended 31 December 2014.

3. To approve the payment of a final dividend of 11.6p per share recommended by the directors, payable on 1 May 2015 to holders of ordinary shares registered at the close of business on 20 March 2015.

4. To re-elect Mr N J Taylor who is retiring as a director in accordance with Article 92.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

5. To re-elect Mr E Buxton who is retiring as a director in accordance with Article 92.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

6. To re-elect Mr K Stevens, who is retiring as a director in accordance with Article 92.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

7. To re-elect Mr J D S Booth who is retiring as a non-executive director in accordance with good corporate governance practice, having been a director for more than nine years and who, being eligible, offers himself for re-election.

8. To elect Mrs A P Nabavi, who was appointed to the board on 30 June 2014.

9. To elect Mr D K Boyce, who was appointed to the board on 24 November 2014.

10. To re-appoint BDO LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company, and to authorise the directors to agree their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions, of which resolution 11 will be proposed as an ordinary resolution and resolutions 12 and 13 as special resolutions:

11. That the directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ("the Act") to exercise all powers of the Company to allot and to make offers or agreements to allot relevant securities up to a maximum aggregate nominal amount of £35,715, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier) unless revoked, renewed or extended prior to such time, except that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all subsisting authorities to the extent unused.

12. That, subject to the passing of resolution 11, the directors be and are hereby generally empowered pursuant to Section 570 of the Act to allot equity securities as defined in Section 560 of the Act for cash as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive issue in favour of shareholders; and

    (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £10,714.

    This power shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier) unless revoked, renewed or extended prior to such time except that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

13. That the Company is, pursuant to Section 701 of the Act, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693) of up to a maximum of 1,606,115 ordinary shares of 1p each in its capital (representing 14.99% of the Company's current issued ordinary share capital), provided that:

    (a) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1p;

    (b) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is not more than 5% above the average published market value for an ordinary share as derived from the London Stock Exchange Alternative Investment Market for the five business days immediately preceding the day on which such share is contracted to be purchased; and

    (c) the authority shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier), except in relation to the purchase of any ordinary shares the contract for which was concluded before the date of expiry of the authority and which would or might be completed wholly or partly after such date.

By order of the board

W D Todd
Company Secretary

23 March 2015

Registered office
61 Webber St
London SE1 0RF

Notes

1. A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote at the meeting instead of him/her. A proxy need not be a member of the Company. A member of the Company may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share. Appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed which you are invited to complete and return. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by contacting the Company's registrar on 0870 707 1182 or the proxy form may be photocopied. State clearly on each proxy form the number of shares in relation to which the proxy is appointed. To be effective, it must be completed and be received, by post or (during normal business hours only) by hand at the offices of the Company's Registrar not later than 10.00am on 24 April 2015 (or in the event that the meeting is adjourned, no later than 48 hours before the time of the adjourned meeting). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.

2. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 24 April 2015, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time (or in the event that the meeting is adjourned, 48 hours before the time of the adjourned meeting). Changes to entries on the relevant register of securities after 6.00pm on 24 April 2015 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Documents available for inspection

4. The following documents will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the end of the meeting:

    4.1 Copies of the service contracts of the executive directors;

    4.2 Copies of the letters of appointment of the non-executive directors.

Biographical details of directors

5. Biographical details of all those directors who are offering themselves for appointment or reappointment at the meeting are set out on pages 16–17 of the annual report and accounts

Maintel
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