

Annual Report & Accounts 2016

Maintel Holdings Plc



maintel® 

Maintel is a fast-growing provider of managed communications services for the private and public sectors. We're experts at securely connecting our customers in the office, on the move and in the cloud.

We bring people closer together so that businesses become more agile, workers more productive and customers better engaged.



"This is a good set of results for Maintel in what has been a very busy year for the Group. The highlight was the acquisition of Azzurri, supported by the robust performance of the core Maintel business in the second half, demonstrating the strength of our diversified product portfolio and our ability to respond to changing market conditions."

Eddie Buxton
Maintel CEO

Highlights

REVENUES
£108.3m
 ▲ 114%
 2015: £50.6m

ADJUSTED PROFIT
 BEFORE TAX^[1]

£11.1m
 ▲ 52%
 2015: £7.3m

ADJUSTED EARNINGS
 PER SHARE^[2]

78.0p
 ▲ 29%
 2015: 60.3p

FULL YEAR DIVIDEND
 PER SHARE

30.8p
 ▲ 5%
 2015: 29.3p

Contents

Who we are	03
Chairman's statement	04
Strategic report	06
Board of directors	20
Report on corporate governance	22
Report of the remuneration committee	26
Report of the directors	30
Statement of directors' responsibilities	32
Independent auditors' report	33
Consolidated statement of comprehensive income	34
Consolidated statement of financial position	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37
Notes forming part of the consolidated financial statements	38
Company balance sheet	59
Company reconciliation of movement in shareholders' funds	60
Notes forming part of the Company financial statements	61
Directors, Company details and advisers	65

Notes

- [1] Adjusted profit before tax of £11.1m (2015: £7.3m) is basic profit before tax, adjusted for intangibles amortisation and the exceptional costs.
- [2] Adjusted earnings per share is basic earnings per share of 16.0p (2015: 38.0p), adjusted for intangibles amortisation, exceptional costs and deferred tax charges on Datapoint and Azzurri profits (note 11). The weighted number of shares in the period increased to 13.1m (2015: 10.8m) arising from the equity raise in May 2016 to support the Azzurri acquisition.





**We're passionate
about technology,
collaboration and
communication, and
are driven by delivering
managed services
that put enterprises on
the path to business
transformation.**

Who we are

SUPPORTING
ALMOST
7,000
CUSTOMERS

OVER
25
years'
EXPERIENCE
IN OUR FIELD

A WORKFORCE
OF OVER
600
HIGHLY SKILLED
EMPLOYEES

Who we are

We're technology lovers, collaborators and communicators, and are driven by putting enterprises on the path to business transformation.

Maintel continually invests in its people and products, enabling us to remain among the most accomplished managed services providers.

An exciting past, a secure future

Founded in 1991, Maintel became AIM listed in 2004. Significant organic growth continues to spearhead our success, feeding the expansion of our global footprint and additional capabilities to support the requirements of almost 7,000 customers.

Operating across eight locations in the UK and Ireland, our team of over 600 people has been bolstered by the acquisition of key enterprise technology providers that complement our core proposition.

Technology leaders

Maintel's expertise encompasses unified communications, contact centre solutions, workforce optimisation, local and wide area networking and security, mobile and voice services and managed print services.

By combining skills and technologies from vendor and carrier partners with the capabilities of our in-house experts, Maintel provides complete end-to-end services, delivered on-premise or in the cloud.

Chairman's statement



"In what has been a period of significant and exciting change, I would like to welcome new colleagues and express the board's appreciation for the effort and dedication shown by all Maintel employees during the year."

J D S Booth
Chairman

I am very pleased to report that Maintel delivered a strong financial performance in 2016, with eight months' contribution from Azzurri underpinning a 114% increase in revenues to £108.3m (2015: £50.6m) and adjusted profit before tax increasing by 52% to £11.1m (2015: £7.3m). Adjusted EPS rose by 29% to 78.0p (2015: 60.3p). Cash performance was particularly strong, with operating cash flow of £10.6m (2015: £6.8m) delivered resulting in period end net debt of £20.1m, comfortably ahead of board expectations.

Contracted revenue made up 73% of 2016 revenues (2015: 69%) including the contribution from Azzurri, which brought a higher level of recurring revenue to the Group.

Excluding Azzurri, the Group's core business was able to achieve 1% organic growth year on year, in a highly competitive market. After a softer performance in the first half, the business saw a significant improvement in the second half as we benefited from a number of major contract wins. As a result, revenue in the second half grew by 22% compared to the levels recorded in the first half.

The managed service and technology division delivered a 62% increase in revenue to £64.1m, with managed services revenue up 45% year on year and technology sales up 88%, both benefiting significantly from the contribution from Azzurri. The underlying Maintel business, excluding Azzurri, grew by 4% to £41.2m (2015: £39.6m) aided by strong sales at the end of the first half and in the remainder of the year. These sales were driven by contracts awarded under the government procurement framework and three large private sector client wins.

Gross margin within the division decreased to 33% in the year from 40%, driven by the expected impact of Azzurri and lower margins earned on two major installation projects.

Network services revenue increased by 346% year on year, driven by the contribution from Azzurri. Excluding Azzurri, Maintel's underlying revenue declined by 8% as the Group managed its fixed voice services in the context of a declining market, while proactively migrating customers to the replacement SIP based service. The acquisition of Azzurri has strengthened

Strong Cash Performance

with operating cash flow of £10.6m (2015: £6.8m)

Increased Dividend

an increase of 5% in line with our policy

Increased Recurring Revenues

73% of total group turnover (2015: 69%)

our offer in this division with ICON Connect, a managed data network service, which delivers secure, reliable and dependable access to essential services monitored 24/7 from our in-house network operations centre.

Mobile revenue increased by 147% to £6.9m again due to the significant contribution from Azzurri, the impact of which also led to an increase in gross margin to 49% (2015: 42%). Gross profit within mobile increased by £2.2m to £3.4m (2015: £1.2m).

We completed the purchase of Azzurri, a highly complementary business, in May 2016. This acquisition enhances the Group's ability to offer a broader range of new services, in particular accelerating our move into cloud based services where we see strong growth. The integration of the business has progressed well, with the Group now migrated onto one set of operating systems and trading under the Maintel brand, the Azzurri name having been retired in October 2016. We have achieved cash synergies of £2.2m during the year, above our initial expectation of £1.9m, and expect annualised synergies of £5.0m for 2017 versus an initial expectation of £4.6m.

This significant acquisition and its successful integration has transformed our business and we are pleased with its performance so far. We continue to monitor the market for further acquisition opportunities, particularly within the managed data and hosted services arena, where we see the most complementarity with our existing business and a robust outlook for growth.

Maintel enjoyed strong cash generation in 2016 with 84% of adjusted EBITDA converted to headline operating cash flow or 104% when restated to exclude exceptional acquisition costs of £2.5m. Net debt stood at £20.1m at year-end, comfortably ahead of board expectations. While increased profits as a result of the contribution from Azzurri were the major factor, we also saw an improvement in working capital, which benefited from a positive impact of £1m of receipts related to overpayments from customers and timing differences on VAT payments.

The board proposes to pay a final dividend of 17.4p per share, resulting in a total ordinary dividend for the year of 30.8p per share (2015: 29.3p per share), an increase of 5% in line with our existing policy. As stated at the time of the acquisition of Azzurri, we expect to grow the dividend by 10% in 2017.

Finally, in what has been a period of significant and exciting change, I would like to welcome new colleagues and express the board's appreciation for the effort and dedication shown by all Maintel employees during the year.

J D S Booth
Chairman

17 March 2017

Strategic report

Results for the year

This has been a transformational year for the Group following the acquisition of Azzurri, with reported revenues increasing by 114% to £108.3m (2015: £50.6m), and adjusted profit before tax (as described below) increasing by 52% to £11.1m (2015: £7.3m).

The year has benefited from eight months' contribution from Azzurri, which was acquired in May 2016 and as a result contributed £57.8m revenue to the Group results.

Second half momentum in the organic business, pre-Azzurri, has been

particularly pleasing. Organic revenue growth of 1% was achieved year on year, with a significant improvement in performance, and a return to growth, in the second half, as delayed contracts came on board.

Adjusted earnings per share (EPS) increased by 29% to 78.0p (2015: 60.3p) based on an increased weighted average number of shares in the period following an equity raise in May 2016 to support the Azzurri acquisition. In addition, the Group benefited from utilisation of various tax reliefs from Azzurri amounting to £0.9m, representing an uplift to EPS of 6.9p.

Excluding exceptional costs, adjusted EBITDA of £12.6m – an increase of 63% over 2015 – was delivered, the rise being mainly due to the contribution from Azzurri.

On an unadjusted basis, the profit before tax decreased by 49% to £2.1m (2015: £4.2m) and basic EPS by 58% to 16.0p (2015: 38.0p). This includes £4.2m of exceptional costs associated with the Azzurri acquisition and related restructuring activities (2015: £0.9m), and intangibles amortisation of £4.7m (2015: £2.2m), the increase in the latter due to the acquired Azzurri intangible.

Acquisition
of Azzurri

Organic
revenue
growth

Increased
profits

	2016 £000	2015 £000	Increase/ (decrease)
Revenue	108,296	50,623	114%
Profit before tax	2,107	4,151	(49)%
Add back intangibles amortisation	4,733	2,235	
Exceptional items mainly relating to the acquisition of Azzurri	4,240	884	
Adjusted profit before tax	11,080	7,270	52%
Adjusted EBITDA ^(a)	12,598	7,725	63%
of which ^(b) : Maintel	7,700	7,725	–
Azzurri	4,898	–	–
Basic earnings per share	16.0p	38.0p	(58)%
Diluted	15.8p	37.5p	(58)%
Adjusted earnings per share ^(c)	78.0p	60.3p	29%
Diluted	76.8p	59.5p	29%

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

(b) After management charges

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

Strong cash performance

The Group delivered strong operating cash flows in the year, with net cash flows from operating activities of £10.6m (2015: £6.8m) compared to adjusted EBITDA of £12.6m (2015: £7.7m), representing a cash conversion rate of 84% (2015: 88%) or 104% restated to exclude the legal and professional fees relating to the acquisition of Azzurri of £2.5m. The increase was primarily driven by increased profits as a result of the contribution from Azzurri and an improvement in working capital, offset by exceptional costs associated with the acquisition.

In addition, the Group benefited from the timing effect of £1.0m of receipts related to overpayments from customers and timing differences on VAT payments due to a change in Group registration, both of which unwound in January 2017. As a result, the Group ended the year with net debt of £20.1m (2015: £3.2m) or 1.6x (2015: 0.4x) adjusted EBITDA, comfortably ahead of our expectations.

Azzurri

Maintel completed the acquisition of Azzurri on 4 May 2016 for an aggregate cash consideration of £1 and with a commitment that the Company procure the repayment of Azzurri's then existing senior debt and other indebtedness immediately following completion. This equated to an enterprise value for Azzurri of £48.5m. In total £57.8m of revenue and £4.9m of adjusted EBITDA were recognised in 2016 relating to the acquisition.

Azzurri was a transformational acquisition for Maintel, providing additional scale and product capability, with an attractive customer

base. The combined Group now has a comprehensive and compelling services portfolio including managed data, mobility and cloud based services. The enlarged Group offering will also allow customers to choose public or private hosted cloud services and will accelerate the shift in business mix to these high growth areas of the market.

Azzurri has performed well since its acquisition by Maintel, and we are pleased with its progress and integration into the Group. As we reported previously, ICON Communicate, Azzurri's cloud unified communications proposition, has seen strong growth and this continued into the second half of 2016 with further wins with a national retailer and a large NHS Trust. Our Skype for Business and Mitel hosted unified communications propositions are well established and our Avaya offering is now ready for service. In 2016 we saw the number of contracted seats grow by 63% over the previous year.

We continue to invest in the business, especially the ICON cloud platform where we have seen an increase in customer demand for greater bandwidth. The launch of a new hosted security as a service proposition has been successful, with three contracts won from a combination of existing and new large customers. We have also extended the scope of the network operations centre in the Burnley facility to provide in house 24/7 customer support to our customers, and added a security operations centre in support of our managed security offering. All customer interactions are now carried out in the UK.

The acquisition of Azzurri has also consolidated the Group's presence and accreditations with its major partners. Maintel now carries the highest levels of accreditation with both Avaya and Mitel, taking a significant position with both of these leading vendors in the UK market.

The Group's mobile offering has also been brought together and is now focussed on the same target market as the unified communications, connectivity and contact centre offers wrapped around the delivery of managed services.

There has been some customer churn in the Azzurri base with two large customers signalling their intent to move; however this is in line with our expectations at the time of acquisition. These contracts will phase out over the next 12 months. It is worth noting that during the period Azzurri's largest recurring revenue customer extended its contract ahead of expectations.

The integration of the business is largely complete, with the Group now managed under one organisational structure and the migration onto one set of systems now complete. The Group now goes to market under the Maintel brand with the Azzurri name having been retired in October 2016.

As a consequence of the acquisition and integration we have seen Group headcount move down from 751 at the acquisition date to 662, a reduction of 12%.



Strategic report continued

Exceptional costs of £4.2m were incurred by the Group, of which £2.8m of legal and professional fees related to the acquisition and ensuing integration, as detailed in note 12. In addition, as part of the integration process, there have been a number of redundancies across the Group in 2016.

The Group exceeded its original synergy target of £1.9m, delivering savings of £2.2m in the current year with an annualised effect of £5.0m now expected, compared to the previous reported estimate of £4.6m.

The exceptional costs associated with realising these synergies in the year amounted to £1.3m, as detailed in note 12. These costs have been disclosed as an exceptional item in the income statement.

Review of operations

Excluding Azzurri, Maintel's revenues, restated to include a full year of its mobile division, amounted to £51.1m or 1% organic growth. As expected we saw improved trading in H2 with revenues increasing by 22% over H1 as the delayed contracts previously reported came on board.

The table below summarises the revenue performance of the three operating segments of the Group. The 2016 numbers include eight months' contribution from Azzurri.

In Q4 2016, as part of the restructuring of the Group, Maintel's mobile division was hived up into Azzurri. The Q4 revenue performance of that division amounted to £0.5m.

Revenue analysis	2016 £000	2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)			
Managed services related	23,860	23,900	–
Technology ^(d)	17,325	15,714	10%
Managed services and technology division	41,185	39,614	4%
Network services division	7,729	8,383	(8)%
Mobile division^(e)	1,754	2,815	(38)%
Total Maintel (excluding Azzurri)	50,668	50,812	–
Total Maintel (excluding Azzurri)	50,668	50,812	–
Maintel mobile Q4 ^(f)	461	–	–
Total Maintel (restated for Mobile Q4)	51,129	50,812	1%
Azzurri^(g)			
Managed services related	10,770	–	–
Technology ^(d)	12,154	–	–
Managed services and technology division	22,924	–	–
Network services division	29,666	–	–
Mobile division^(e)	5,193	–	–
Total Azzurri	57,783	–	–
Total Maintel Group			
Managed services related	34,630	23,900	45%
Technology ^(d)	29,479	15,714	88%
Managed services and technology division	64,109	39,614	62%
Network services division	37,395	8,383	346%
Mobile division	6,947	2,815	147%
Intercompany	(155)	(189)	18%
Total Maintel Group	108,296	50,623	114%

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

(e) Maintel mobile division in 2016 represents 9 months' performance only, with Q4 2016 performance included under Azzurri.

(f) Maintel mobile division for Q4 2016 restated to reflect organic growth.

(g) Azzurri was acquired on 4 May 2016, and therefore 8 months' of its financial performance has been considered post-acquisition.

The level of recurring revenue increased to 73% (2015: 69%), including the eight months' contribution from Azzurri, which as anticipated brought a higher level of recurring revenue to the Group. Azzurri's standalone business was 79% recurring in the period since acquisition.

Overall gross margin for the Group reduced to 32% (2015: 38%) driven predominantly by the lower margin contribution from Azzurri in the period, which was partially offset by the synergies realised through the integration of Azzurri into the Group, the full benefit of which will be seen in 2017. The reduction in gross margin in the managed services and technology division in Maintel is as a result of lower margins earned on some larger high value orders.

Detailed divisional performance is described further below.

Managed services and technology division

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

Revenue in this division increased by 62% to £64.1m, with managed services related revenue up 45% year on year and technology sales up 88%, both benefiting significantly from the contribution from Azzurri.

The underlying Maintel business, excluding Azzurri, grew by 4% to £41.2m (2016: £39.6m) as a strong H2 performance more than offset the slow reported start to the year.

Group gross profit increased by £5.7m compared with 2015, driven by the contribution from Azzurri.

Gross margin within the division decreased to 33% in the period from 40%, driven by the expected impact of Azzurri and lower margins earned on two major installation projects.

Given the application of common resource across both managed service and technology sales, profit breakdown within the division is not provided; however the shared resource cost is monitored closely internally.

	2016 £000	2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)			
Divisional revenue	41,185	39,614	4%
Division gross profit	15,176	15,749	(4)%
Gross margin (%)	37%	40%	
Azzurri			
Divisional revenue	22,924	–	–
Division gross profit	6,232	–	–
Gross margin (%)	27%	–	
Total Maintel Group			
Divisional revenue	64,109	39,614	62%
Division gross profit	21,408	15,749	36%
Gross margin (%)	33%	40%	

Strategic report continued

Managed services

At the half year, organic managed service revenues (i.e. excluding any contribution from Azzurri), were down 6% year on year due to the delay in signing three multiyear managed services contracts with a total value of over £11.0m. All of these contracts closed successfully at the end of H1. As a result, organic managed service revenues at £12.6m are up 12% on the revenues reported in the first half. The managed service base stood at £25.5m at the year end, up £1.1m or 4.6% on 2015.

We ended 2016 with a strong backlog of orders going into 2017 and a good pipeline of opportunities.

Technology

Excluding Azzurri, the second half showed a strong recovery with growth of 69% over the first half, bringing the full year to £17.3m, a 10% increase on 2015. This was driven by strong sales at the end of H1 and during the remaining part of the year, including a £0.9m project to upgrade a LAN network for a large university, a £1.8m contract for a greenfield data and unified communications roll out for a large construction group and a £1.4m contact centre upgrade for a major utility company.

As with managed services, the backlog of sales moving into 2017 is healthy, in particular under the public sector procurement framework, with two significant customer wins in the healthcare sector for major upgrades of their unified communications infrastructure. We are continuing to see some margin pressure, especially on the larger projects.

We are also starting to see some impact of cloud based opportunities on equipment sales. The pipeline of opportunities is growing and we are well placed with Azzurri's ICON platform to take advantage of this trend.

We are in discussions with a number of large customers about moving their on-premise unified communications infrastructure to the cloud over the next 2 years. This drives the opportunity for a more comprehensive managed service proposition as companies are increasingly moving services to the cloud.

Network services division

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

Network services revenues increased by 346% year on year, driven by the contribution from Azzurri.

Excluding Azzurri, Maintel revenues declined by 8%, but excluding a one-off £235,000 equipment sale associated with a WAN optimisation project in H1 2015, underlying revenue only declined by 5%. Divisional gross margin increased by 1% to 28% largely due to the H1 2015 equipment sale being at low margin.

	2016 £000	2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)^(h)			
Call traffic	2,318	2,589	(11)%
Line rental	2,875	3,185	(10)%
Data connectivity services	2,492	2,566	(3)%
Other	44	43	2%
Total division	7,729	8,383	(8)%
Division gross profit	2,150	2,284	(6)%
Gross margin (%)	28%	27%	
Azzurri			
Call traffic	4,372	–	–
Line rental	7,218	–	–
Data connectivity services	17,790	–	–
Other	286	–	–
Total division	29,666	–	–
Division gross profit	8,107	–	–
Gross margin (%)	27%	–	
Total Maintel Group			
Call traffic	6,690	2,589	158%
Line rental	10,093	3,185	217%
Data connectivity services	20,282	2,566	691%
Other	330	43	667%
Total division	37,395	8,383	346%
Division gross profit	10,257	2,284	349%
Gross margin (%)	27%	27%	

(h) VoIP of £381,000 (2015: £370,000) and inbound calls of £172,000 (2015: £182,000) have been reclassified from Other to Data connectivity services and Call traffic respectively.

The Group manages its fixed voice services in the context of a declining market while proactively migrating customers to the replacement SIP based service. In the year, the number of SIP lines has increased 32%. Overall fixed revenues (calls and line rental) were down 11% year on year to £5.2m as a result of the move to SIP, combined with the on-going market decline.

Data connectivity services revenue primarily consists of MPLS networks, internet access and access circuits to support SIP trunking and hosted

telephony services. Data and SIP trunking sales are strong in multiple sectors including health, education and charities and the traction that we are gaining as an official supplier on the public sector framework agreement further enhances our position as a key partner in this sector. Excluding Azzurri, data revenues declined by 3% due to the impact of the one-off equipment sale previously mentioned and the proactive move of new customer opportunities to the ICON connect proposition. Restated, to exclude the one-off sale, data grew by 7% year on year.

Moving forward, the acquisition of Azzurri strengthens our position in this sector with ICON Connect, a managed data network service, which delivers secure, reliable and dependable access to essential services monitored 24/7 from our in-house network operations centre.

Strategic report continued

Mobile division

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

	2016 £000	2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)			
Revenue	1,754	2,815	(38)%
Gross profit	779	1,196	(35)%
Gross margin (%)	44%	42%	
Azzurri			
Revenue	5,193	–	–
Gross profit	2,606	–	–
Gross margin (%)	50%	–	
Total Maintel Group			
Revenue	6,947	2,815	147%
Gross profit	3,385	1,196	183%
Gross margin (%)	49%	42%	

	At 31 December 2016 £000	At 31 December 2015 £000	Increase
Total Maintel Group			
Number of customers	2,476	830	198%
Number of connections	51,935	12,011	332%

As highlighted earlier in the report, as part of integrating Azzurri, the Group has undertaken a strategic review of its mobile business, resulting in the decision to reduce its presence in the small business space. This reduces the exposure of mobile for the Group and re-focuses our sales activity in line with the other product propositions in the target mid-market sector. As a result, the ongoing exposure to mobile is expected to reduce to under 6% of Group turnover. As part of this review, the Azzurri small business mobile operation in East Killbride was closed and these customers have now been removed from the Azzurri base.

Mobile revenue increased by 147% to £6.9m due to the significant contribution from Azzurri, the impact of which also drove an increase in gross margin to 49% (2015: 42%).

Gross profit increased by £2.2m to £3.4m (2015: £1.2m).

Maintel's revenue represents only 9 months' activity as operationally the mobile division was merged with Azzurri and fully integrated from this point. Restated to include the £0.5m revenue contribution from Q4 2016, organic Mobile revenue decreased by 21% to £2.2m, partly due to the changes in roaming charges but largely due to the reduction in small business customer acquisition and retention as the Group refocused on mid-market customers.

Whilst the level of new customer additions has been good, we have seen the base consolidate down as we re-focus our proposition on the mid-market. The mobile base of the Group now stands at 51,935 connections of which 88% are on the O2 network.

Other operating income

This comprised a full year rental income of £151,000 (2015: £12,000) generated as a result of sub-letting a part of the new London premises. The sub lease commenced in December 2015, and is expected to generate annual rental income for at least three years.

Administrative expenses, excluding intangibles amortisation and exceptional expenses

Total administrative expenses for the Group increased to £23.1m (2015: £11.5m). Excluding Azzurri, Maintel's costs are in line with 2015 at £11.5m.

Administrative expenses ⁽ⁱ⁾	2016 £000	2015 £000	Increase/ (decrease)
Maintel (excluding Azzurri)			
Maintel sales expenses	5,896	6,323	(7)%
Maintel other administrative expenses	5,653	5,207	9%
Maintel (excluding Azzurri) total administrative expenses	11,549	11,530	–
Azzurri			
Azzurri sales expenses	6,160	–	–
Azzurri other administrative expenses	5,355	–	–
Azzurri total administrative expenses	11,515	–	–
Total Maintel Group			
Total sales expenses	12,056	6,323	91%
Total other administrative expenses	11,008	5,207	111%
Total administrative expenses	23,064	11,530	100%

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

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

Maintel sales expenses decreased by £0.4m (7%) in the period, partly due to reclassification of the Group sales director to other administrative expenses amounting to £0.2m. The remaining sales expense reduction of £0.2m was primarily driven by lower headcount due to the consolidation and restructuring of the sales force. This was offset by higher commissions on higher sales orders and a change in the commission plan, which had a one-off timing effect of £0.2m.

Maintel's other administrative expenses increased by £0.4m or 9% in the year. Restated to exclude the reclassification of sales personnel, the increase was £0.2m. Part of the increase was due to higher rental costs, taking into account sub lease income derived from our London office, which is classified in other operating income, there was no net increase. Other increases in costs related to accounting for share options (£0.1m) and licence costs (£0.1m), which were offset by headcount savings as a result of the restructuring process.

Azzurri administration costs are tightly controlled, with a number of components, particularly premises, benefiting from lower regional costs compared with the London-based costs of most of the rest of the Group. Significant savings have already been delivered during the year as Azzurri

has been integrated into the Group, including director costs, sales staff and marketing costs.

Exceptional costs

A breakdown of the exceptional costs of £4.2m (2015: £0.9m) shown in the income statement is provided in note 12, the main elements being the legal and professional fees associated with the acquisition of Azzurri (£2.5m) and redundancy costs incurred primarily on the integration of the Azzurri business (£1.3m).

Intangibles amortisation

The intangibles amortisation charge increased in the year due to the 8 month charge in respect of Azzurri. Impairment and amortisation charges are discussed further below.

Strategic report continued

Foreign exchange

The Group's reporting currency is sterling; however it trades in other currencies, notably the euro, and has assets and liabilities in those currencies. The euro rate moved from €1.36 = £1 at 31 December 2015 to €1.17 = £1 at 31 December 2016. The effect of this and other movements in the period was a net gain to the income statement of £33,000 (2015: charge of £44,000), which is included in other administrative expenses.

The exchange difference arising on the retranslation at the reporting date of the equity of the Group's Irish subsidiary, whose functional currency is the euro, is recorded in the translation reserve as a separate component of equity, being a charge of £40,000 in the period (2015: gain of £41,000).

Interest

The increase in the net interest charge to £0.9m in the year (2015: £0.3m), reflects the increase in the Group's borrowings to finance the acquisition of Azzurri in May 2016.

Taxation

The consolidated statement of comprehensive income shows a tax charge of £13,000 (2015: £69,000) which results in a tax rate of 0.6% (2015: 1.7%) for the reasons described below. Each of the Group companies is taxed at 20%, other than Maintel International Limited, which is taxed at 12.5% (2015: 20.25%; 12.5%). Certain recurring expenses that are disallowable for tax raise the effective rate above this.

The tax charge in the period benefited from some adjustments, including (a) £0.5m credit to the income statement on a reappraisal of the ability to use Datapoint tax losses and (b) £0.3m credit to the income statement arising from the revaluation of the liability against intangible assets reflecting the impact of reduced future tax rates.

The tax charge includes a deferred tax charge, relating to (a) the tax losses arising from the acquisition of the Datapoint companies, whereby the UK companies do not currently pay corporation tax on their profits and (b) tax losses and unused capital allowance pool arising from the acquisition of Azzurri, whereby a tax asset in respect of the historic losses and unused capital allowances are charged to the income statement as the losses are used.

For the Datapoint companies, the deferred tax charge in the year was £0.5m (2015: £0.5m) in relation to the brought forward losses. In addition there is also a £0.5m deferred tax credit included in the income statement, reflecting an increase in the deferred tax asset, based on the directors' assessment that more tax losses are likely to be useable than was assumed at the date of Datapoint's acquisition.

In relation to Azzurri, the deferred tax charge in the year was £0.6m in relation to the brought forward losses and £0.1m related to capital allowances.

This is described further in note 21.

Dividends and adjusted earnings per share

A second interim dividend for 2015 of 16.5p per share (£1.8m in total) was paid on 5 April 2016.

An interim dividend for 2016 of 13.4p (£1.9m) was paid on 12 October 2016. In line with the board's intention of increasing the dividend per share by 5% for the current financial year, a final dividend of 17.4p per share is proposed. This takes the total dividend payment for 2016 to 30.8p.

In accordance with accounting standards, the final dividend is not accounted for in the financial statements for the period under review as it had not been committed as at 31 December 2016.

The board is pleased to re-iterate its intention to increase the dividend by 10% for the financial year ending 31 December 2017.

Consolidated statement of financial position

Net assets, including Azzurri, increased by £21.7m in the year to £28.2m at 31 December 2016 due to the equity raise, total comprehensive income in the period offset by dividends paid.

Intangible assets at £63.1m, increased by £45.0m, driven by intangibles arising on the acquisition of Azzurri (see note 14).

The net book value of property, plant and equipment has increased by £2.6m to £3.3m (2015: £0.7m) as a result of the acquisition of Azzurri. Included in the acquired assets is a freehold property valued at £1.6m. Post-acquisition, Azzurri incurred £0.4m of expenditure relating to the ICON platform and expanding capacity in its data centre infrastructure. Maintel incurred minimal capital expenditure, with its tangible asset value remaining in line with the year end 2015 balance at £0.7m.

Trade receivables increased by £10.2m in the year to £17.3m with £9.7m attributable to Azzurri. Excluding Azzurri, the increase of £0.5m is due to the net effect of a number of phasing differences in both technology and managed service invoicing spanning the year end.

Prepayments and accrued income increased by £7.7m to £11.6m. Excluding Azzurri the increase was £0.7m, most of this being driven by several large projects in progress at year end and an increase in commissions resulting from higher sales in the second half of the year.

Inventories are valued at £4.9m, an increase of £3.6m in the year, with Azzurri contributing £3.3m. Excluding Azzurri, Maintel inventories have increased by £0.3m, to £1.6m.

The value of stock held for resale increased by £0.6m due to the timing of customer deliveries, offset by provisioning which continues to be applied to older maintenance stock driving a reduction of £0.3m.

Trade payables have increased by £4.8m since 31 December 2015 to £9.9m (2015: £5.1m). Excluding Azzurri, trade payables have decreased by £2.0m with a number of different supplier and delivery timing factors affecting the balance.

Other tax and social security liability has increased by £3.0m, with £2.7m attributable to Azzurri. Excluding Azzurri, the other tax and social liability for Maintel increased by £0.3m, the VAT liability being higher due to increased Q4 customer invoicing in 2016 (£0.6m) compared to 2015, offset by a slight drop in PAYE/NIC liability due to lower headcount.

Accruals are at £9.2m and excluding Azzurri have increased by £2.0m year on year. The bulk of the increase is attributable to several large projects in progress at the year-end (£1.8m), plus a higher level of bonus accrued (£0.2m).

Other payables are at £4.3m compared to £0.6m in 2015, with Azzurri contributing a balance of £4.0m. The Azzurri balance is driven by the level of hardware funds and cash advances of £2.8m, linked to the mobile business, and property dilapidation provisions of £0.6m. The Maintel balance reduced by £0.3m relating to the mobile division which is now included under Azzurri.

Deferred managed service income has increased to £16.0m, with £6.7m attributable to Azzurri. Excluding Azzurri, the balance has increased by £0.3m, in the main due to invoice timing differences and to a lesser extent the increase in size of the customer base.

Other deferred income has increased by £5.3m to £6.0m, with £5.6m attributable to Azzurri. The Azzurri balance is made up of deferred amounts associated with the recurring mobile and data revenue streams. The Maintel balance reduced by £0.3m due to invoice timing differences.

Corporation tax liabilities have increased by £0.2m to £0.5m (2015: £0.3m) driven by a lower proportion of profit emanating from the Datapoint companies with their associated historical tax losses and the settlement of 2015 tax liability of £0.3m. The effect of the additional taxable profit emanating from Azzurri has been offset by the utilisation of its historical tax losses and unused capital allowances.

The deferred tax liability has increased by £1.2m to £2.0m (2015: £0.8m). This is partly due to the creation of a net deferred tax liability of £1.7m associated with the intangibles acquired of £4.3m, offset by an asset of £2.6m associated with unused capital allowances and other tax losses of Azzurri.

The remaining movement of £0.5m in the year is due to the application of £1.1m of deferred tax assets relating to both Datapoint and Azzurri profits in the year, and £0.1m deferred tax arising on capital expenditure, net of the following credits to the income statement: (a) £0.9m relating to the intangibles amortisation charge as shown in note 21, (b) £0.3m relating to the revaluation of the liability associated with intangible assets, and (c) £0.5m additional asset established in relation to the projected use of Datapoint tax losses.

Intangible assets

The Group has five intangible asset categories covering customer contracts and relationships acquired from third party companies, brand, product platforms, software and goodwill relating to those acquisitions.

The intangible assets represented by purchased customer contracts and relationships, brand value, product platforms and software were carried at £27.0m at the period end (2015: £8.3m). The intangible assets are subject to an amortisation charge of 18% of cost per annum in respect of the managed service and technology division, 13% per annum in respect of the network services division and 16% per annum in respect of mobile customer relationships, with £4.7m being amortised in 2016 (2015: £2.2m), the increase being attributable to the Azzurri intangibles acquired in May 2016.

Goodwill of £36.1m (2015: £9.9m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. The increase of £26.2m is as a result of the Azzurri acquisition. No impairment has been charged to the consolidated statement of comprehensive income in 2016 (2015: £Nil).

Strategic report continued

Property

Following the acquisition of Azzurri, the Group benefits from a freehold property in Burnley valued at £1.6m, two main additional property leases for offices located in Weybridge and Aldridge and a smaller serviced office in Fareham. The Burnley property serves as the central warehouse facility and core back office operations are also based here.

As reported last year, Maintel completed its move from its long-term headquarters at Webber Street at the end of 2015 to a new location at 160 Blackfriars Road. The short term lease on the Webber Street premises, entered into to accommodate the

Group's London stores operation, was terminated in October, with the stores being relocated to the Burnley warehouse facility, delivering a saving of approximately £0.1m per annum.

As part of management's review and consolidation of its property locations, in March 2017 the lease of the Weybridge property was assigned to a new tenant and Maintel has sub let a much reduced space. The termination date of the sub lease is in line with the existing lease, June 2019, and contains a break clause that could be exercised in September 2018. The estimated saving over the remaining term of the lease is approximately £1.0m.

Cash flow

The Group had net debt of £20.1m, excluding issue costs of debt, at 31 December 2016 (2015: £3.2m), equating to a net debt: adjusted EBITDA ratio of 1.6x (2015: 0.4x). Excluding £1.0m relating to one-off timing differences, as noted earlier in the strategic report, the restated ratio is 1.7x.

An explanation of the £16.9m increase in net debt is provided below.

	2016 £000	2015 £000
Cash generated from operating activities before acquisition costs	13,339	7,829
Taxation	(236)	(1,048)
Capital expenditure less proceeds of sale	(570)	(554)
Finance cost (net)	(625)	(264)
Free cashflow	11,908	5,963
Dividends paid	(3,679)	(2,621)
Acquisition (net of cash acquired)	(45,433)	–
Acquisition costs paid	(2,515)	–
Proceeds from borrowings	31,000	–
Repayments of borrowings	(6,000)	(4,000)
Issue of new ordinary shares	24,000	54
Share issue costs	(781)	–
Issue costs of debt	(360)	–
Increase/(decrease) in cash and cash equivalents	8,140	(604)
Cash and cash equivalents at start of period	2,784	3,347
Exchange differences	(40)	41
Cash and cash equivalents at end of period	10,884	2,784
Bank borrowings	(31,000)	(6,000)
Net debt excluding issue costs of debt	(20,116)	(3,216)
Adjusted EBITDA	12,598	7,725

The Group generated £13.3m of cash from operating activities excluding acquisition costs of £2.5m, with a £2.4m positive working capital impact in the period (2015: £1.0m). This was underpinned by a high cash conversion rate of 104% of operating cash flow, excluding acquisition costs of £2.5m, compared to adjusted EBITDA. As mentioned earlier in the report, working capital benefited from one-off timing effects amounting to £1.0m which unwound in January 2017.

The Group incurred exceptional costs of £4.2m during 2016 (2015: £0.9m), covering primarily acquisition, restructuring and redundancy costs associated with the Azzurri acquisition (described above and in note 12). The net effect of the equity raised and new borrowing facilities associated with the acquisition of Azzurri together with repaying existing borrowing facilities, acquisition related costs and settlement of the 2015 second interim dividend consumed £3.8m in cash and cash equivalents.

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

Further details of the Group's RCF and overdraft facility are given in note 20.

Business model and strategy

The Group's objective is to maximise shareholder returns over the short, medium and long term through providing communication solutions to mid-market and enterprise businesses either on-premise or cloud-based.

Maintel has long lasting relationships and retains the highest level of accreditations with its core vendors. With more than 20 years' experience, Maintel specialises in combining the skills and technologies from its vendors

with the capabilities of its in-house experts to provide complete end-to-end solutions to its customers. Its technology portfolio encompasses unified communications, contact centre, workforce optimisation, networking and security, mobile and connectivity services for mid-market and enterprise businesses in the private and public sector.

The Group has moved towards increasing its exposure to managed services and technology and professional services which are of a higher recurring revenue nature, and to embracing current high-growth services such as cloud, hosting and network security, all delivered within a managed service. There is a progression from legacy services (e.g. traditional calls and lines) into these higher value products and services. The Group has a high level of recurring revenue, at 73%. The Company's customer contracts are typically multiyear on a rolling renewal basis.

While the majority of services are provided in the UK, the Group also services a range of customers overseas. The Group's Irish subsidiary is well established, trades in euros and operates from offices in Dublin servicing multinational companies that trade across Europe. The Irish subsidiary is seen as a benefit in the current uncertain environment created by the UK's decision to leave the EU.

The Group has a contracted customer base of £80m per annum and there is considerable scope to cross-sell the broader portfolio into this base. The managed services base in particular provides opportunity to sell local and wide area networking services, managed security, additional equipment and professional services, and also to transition that base from on-premise to cloud based solutions.

The Group combines these revenue streams into a single business unit.

Organic growth is targeted in each financial year, and will be supplemented by the acquisition of complementary companies or client bases where clear shareholder value can be created. 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 cloud based services or enhanced contact centre expertise.

Principal risks and uncertainties

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

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

Strategic report continued

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

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

We have also invested in our product development function, under the direction of the Chief technology and strategy officer, to ensure that the product portfolio is competitively positioned and anticipates technological change. We regularly discuss product roadmaps and initiatives with analyst houses to test our assumptions with respected third parties, and maintain strong networks with the consultant and vendor communities.

We have also sought to protect our high levels of recurring revenues by offering increasingly differentiated and value added services to our clients, enabling them to transfer responsibility for the management of their core communications platforms to us, including the inherent risk. We have developed a comprehensive

set of managed service offers including managed cyber security, PCI compliance and system and mobile fleet management that ensure our service offerings remain relevant and compelling.

In telecommunications, regulation plays a key role in the setting of prices and tariffs, particularly in the mobile area. To that end, we have reduced our dependency on revenue from mobile voice and data services, replacing it with cloud and managed service revenues. In addition to regulatory activity, fixed and mobile pricing and margins can also be impacted by the activities of both competitors and suppliers. We mitigate these risks by assessing anticipated regulatory and technology change and its impact on pricing strategies, amending our own pricing policies accordingly. We also continue to maintain multiple supplier relationships across both the fixed and mobile sector, to ensure we have access to competitive services. In telecommunications, we continue to see the transition from traditional PSTN and ISDN services towards SIP, a migration we consider increases value for the Company.

One of the Group's principal vendor relationships is with Avaya, whose parent company is currently restructuring its debt through a filing which provides protection under the bankruptcy provisions of Chapter 11 in the US. During this process we are continuing to receive support from Avaya while they operate as business as usual, but remain well balanced in terms of portfolio should there be a dip in sales of the Avaya product range while they go through the restructuring process.

The Group has close partner relationships with organisations such as O2/Telefonica and Vodafone, such that these companies and their clients constitute a significant share of its managed service base. Should these relationships be terminated, the managed service base would reduce to that extent over a period of 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.

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

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

Outlook

2016 was a transformational and successful year for Maintel. Our organic achievements were complemented by the Azzurri acquisition, which has delivered significant value, both financially and strategically, as it has accelerated our move into cloud and hosted managed services.

After a slow H1 we have seen encouraging and improving levels of new business, and we finished FY 2016 with a record Q4 in terms of business signed.

Whilst the Group currently remains focused on bedding down the integration of Azzurri, maximising the cross sell and new business opportunities and reducing debt levels, it will continue to be opportunistic in regards to acquisitions. The main focus remains on strategic acquisitions that complement the existing product set and provide clear value to our shareholders. The Group is well placed to take advantage of opportunities as they arise.

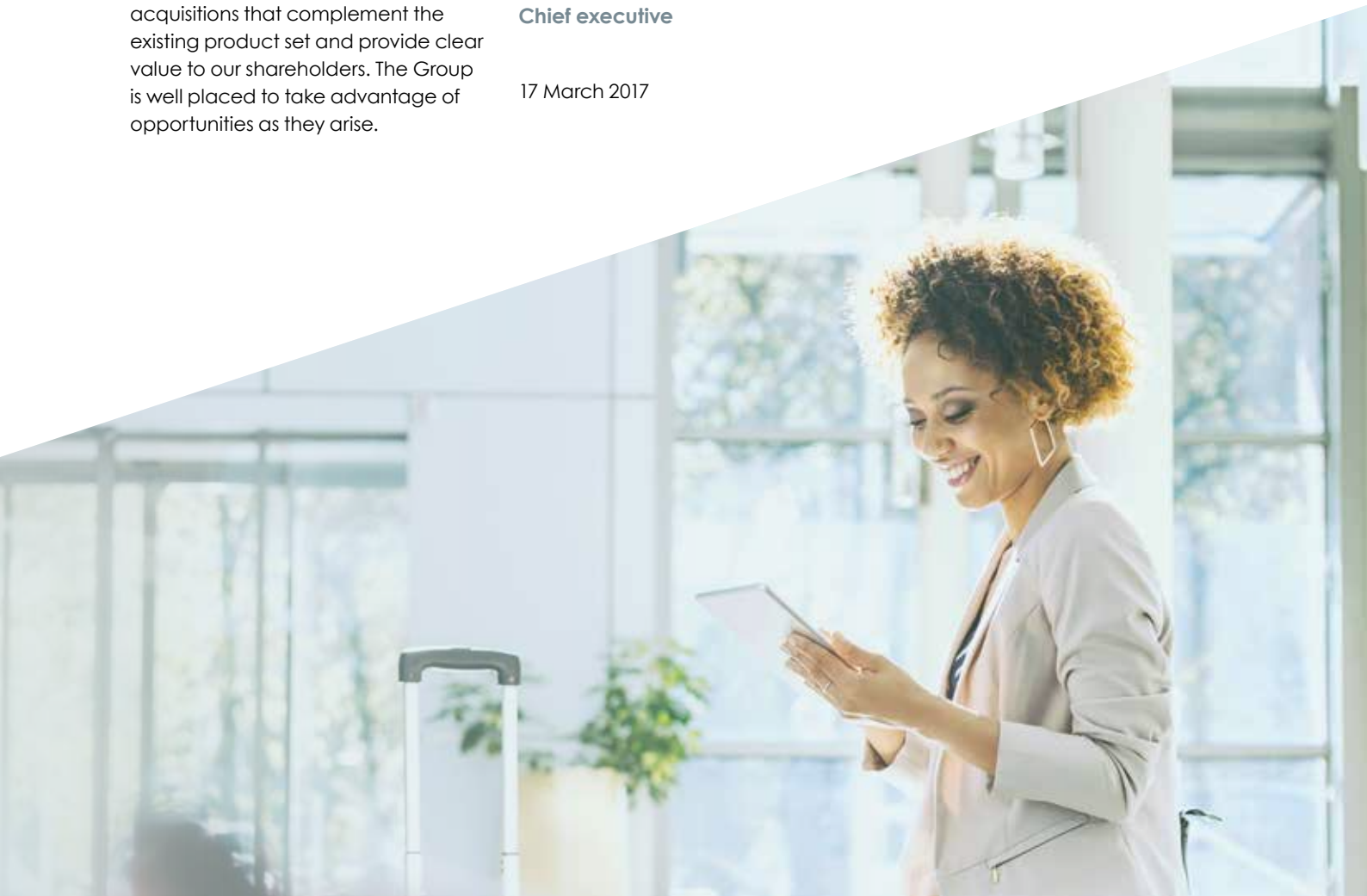
We go into 2017 with an encouraging pipeline of signed and unsigned business. The first weeks of the year show that the momentum carried through from the fourth quarter has been maintained and the board is confident that the business will meet market expectations for 2017.

The continued financial strength of the Group has enabled the board to declare a final dividend of 17.4p per share resulting in a total dividend for the year of 30.8p per share, an increase of 5% over the previous year. The board's intention is to grow the dividend progressively and by a further 10% in the next financial year.

On behalf of the board

E Buxton
Chief executive

17 March 2017



Board of directors



John Booth
Non-executive chairman

Date of appointment

7 June 1996



Annette Nabavi
Senior independent
non-executive director

30 June 2014



Nicholas Taylor
Independent
non-executive director

1 January 2006



Eddie Buxton
Chief executive

2 February 2009

Previous experience

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.

Annette's earlier career was spent in strategy consulting and banking. She has 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 where she focused on strategy and marketing in the TMT sector.

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

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

External appointments

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

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

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

None

Board committees

Nomination – **Chairman**
Audit
Remuneration

Remuneration – **Chairman**
Audit

Audit – **Chairman**
Nomination
Remuneration

None



Angus McCaffery

Director

Date of appointment

7 June 1996

Previous experience

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

External appointments

None



Kevin Stevens

Group integration and transformation director

1 January 2014

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

None



Stuart Legg

Group sales and marketing director

7 April 2016

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

None



Mark Townsend CA

Chief financial officer

7 April 2016

Mark is a Chartered Accountant having qualified with Price Waterhouse (now PWC) in 1988. He has extensive operational and commercial experience across FMCG, retail, construction and rental sectors. Previously he was Group finance director at Livingston Ltd. During his time there, he assisted in a successful sale of the business to a PE-backed acquirer. Prior to Livingston he was Group finance director at Brogan Group for 5 years and has held senior finance positions with Oriflame Cosmetics SA and Pitney Bowes Ltd.

None

Board committees

None

None

None

None

Report on corporate governance

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

Board of directors

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

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

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, Stuart Legg (Group sales and marketing director), Kevin Stevens (Group integration and transformation director), Mark Townsend (Chief financial officer) and Angus McCaffery who has responsibility for business development.

The directors' biographies on pages 20 and 21 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 operating subsidiaries and for the Group as a whole. It operates to a schedule of matters specifically reserved for its decision.

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

Although not required to retire this year in accordance with the articles, corporate governance guidance recommends that non-executive directors with more than 9 years' service are re-elected annually, and John Booth and Nicholas Taylor, having been directors since 1996 and 2006 respectively, offer themselves for re-election. The board's view is that both directors bring a valuable external contribution to the board, remain independent and are able effectively to challenge as well as support the executive directors.

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

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

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

The remit of the committee 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 Group;
- review any comments and recommendations received from the external auditors and considers any other matters which might have a financial impact on the Group;
- review the Group's statements on internal control systems and the policies and processes for identifying and assessing business risks and the management of those risks by the Group.

The audit committee convenes at least twice a year to review the 6 monthly and annual financial statements.

Attendees at committee meetings held in 2016 included: Chief financial officer, Chief executive officer, Group financial controller and representatives of the external auditors. All of these attended at the invitation of the chairman of the committee.

In 2016 it also liaised informally with the executive directors in relation to published financial information, the Azzurri acquisition and other audit-related matters. Nicholas Taylor and Annette Nabavi also met separately 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 2015, the review of the Group's preliminary results in 2016 and the disclosures in the 2015 annual report;
- the external audit plan for the 2016 financial statements which included a review of the audit objectives, scope, timetable and deliverables;
- accounting matters and compliance with IFRS 3 (Business combinations) associated with the acquisition of Azzurri;
- the re-appointment of BDO LLP as external auditors, their independence and objectivity and their fees;
- consideration of the external auditors' observations on the internal financial controls arising from their annual audit.

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

Remuneration committee

Annette Nabavi is chair of the remuneration committee, its other members being John Booth and Nicholas Taylor. The committee met four times during the year. The committee's report to shareholders on directors' remuneration is set out on page 26.

Nomination committee

The nomination committee had two members during 2016, both non-executive, being John Booth, chairman, and Nicholas Taylor. The committee meets as required and met twice in 2016, Annette Nabavi also attending each meeting by invitation. 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.

Report on corporate governance continued

Board attendances

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

Number of meetings in the year	Board	Audit committee	Remuneration committee	Nomination committee
J Booth	33	2	4	2
E Buxton	33	–	–	–
S Legg	18	–	–	–
A McCaffery	29	–	–	–
A Nabavi	33	3	4	–
K Stevens	32	–	–	–
N Taylor	31	3	4	2
D Todd	11	–	–	–
M Townsend	19	–	–	–

In addition to the regular monthly meetings, additional meetings were held during the year relating to the acquisition of Azzurri and the transfer of investments in subsidiaries between Group companies. D Todd resigned as a director in April 2016 and Stuart Legg and Mark Townsend were appointed in April 2016.

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 4 to 19 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. Annette Nabavi also attended certain shareholder meetings during 2016, representing the non-executive directors, to better understand the shareholders' views and to ensure there is an independent channel for their views, should that be necessary.

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

Internal control

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

The 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, ISO20000, ISO18001 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 – both at weekly management and monthly operational board meetings – 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

Scope of the report

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

The remuneration committee

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

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

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

The remuneration committee's remit is to measure the performance of, and determine remuneration policy relating to directors and senior employees. 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.

During the year the committee met on four occasions.

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

Remuneration policy

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

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

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

Element of Remuneration	Purpose and link to strategy	Policy and approach
Base salary	To pay a competitive level of fixed remuneration, taking into account experience and personal contribution to the Group's strategy. Intended to attract and retain the talent required to execute the strategy.	Reviewed annually by the committee in January. Salary increases will normally be in line with pay review levels across the whole Group. However, reference is also made to changes in role and responsibility. Reference is also made to comparisons with companies of similar size and complexity. The base salary of the executive directors has been reviewed specifically in the light of the increased size of the Company following the acquisition of Azzurri in May 2016. Salary increases are effective from 1 February 2017.
Benefits	These complement an executive's basic salary and are designed to ensure the well-being of employees.	Benefits comprise pension contribution (typically 3% of basic salary except in the case of Mark Townsend where he receives a fixed sum of £10,000 per annum), car allowance, and membership of private health, permanent health and life assurance schemes.

Element of Remuneration	Purpose and link to strategy	Policy and approach
Bonus	A cash bonus designed to incentivise specific short term goals and objectives, both financial and non-financial.	<p>Goals and objectives are set individually with a significant weight being put on meeting annual budget in terms of both revenue and EBITDA targets.</p> <p>Stuart Legg, the Group sales and marketing director was targeted only on his on target earnings (OTE) in 2016. This was based on the achievement of gross profit sales targets for the Group as a whole.</p> <p>Apart from Stuart Legg, whose OTE is up to 100% of base salary, executive directors' bonuses are set at between 20% and 35% of base salary.</p>
Long Term Incentive Plan (LTIP)	To encourage and reward delivery of the Company's long term strategic objectives and provide alignment with shareholders through the use of share based incentives.	<p>All share based incentives offered to executive directors have 3 year retention schedules. Grants made under the Company share option plan (CSOP) are at market price. Grants made under the LTIP are provided as zero cost options with strict performance conditions based on the achievement of EPS and upper quartile valuation metrics. Vesting is also subject to continuing employment.</p> <p>Dividends that would be payable on the share awards are rolled up and paid at the end of the vesting period based on the proportion of the award that actually vests.</p>

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

Directors' service agreements

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

Non-executive directors

John Booth and Nicholas Taylor each have a 3 month rolling contract. Annette Nabavi has a contract which expires in normal circumstances on 26 June 2017 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 was reviewed in 1 February 2017. The non-executives receive no payment or benefits other than their fees and associated auto-enrolment pension contributions, although Mrs Nabavi and Mr Taylor were beneficiaries of consultancy fees during the year as described below (2015: Mrs Nabavi and Mr Taylor).

Report of the remuneration committee continued

Directors' remuneration

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

	Salaries/ fees	Benefits	Bonus	Pension contributions	Total 2016 ⁽¹⁾	Total 2015 ^(1,2)
Non-executive directors						
J D S Booth	42	–	–	–	42	41
D K Boyce ⁽³⁾	–	–	–	–	–	20
A P Nabavi ⁽⁴⁾	30	–	–	–	30	25
N J Taylor ⁽⁵⁾	31	–	–	–	31	31
Executive directors						
E Buxton	194	12	60	6	272	213
S D Legg	224	7	–	4	235	–
A J McCaffery	152	23	30	5	210	180
K Stevens	141	11	30	4	186	163
W D Todd	45	4	–	1	50	173
M V Townsend	106	9	30	7	152	–
	965	66	150	27	1,208	846

(1) Excluding social security costs in respect of the above amounting to £152,000 (2015: £102,000), and excluding gains on the exercise of share options in the year of £Nil (2015: £291,000).

(2) Total 2015 remuneration of £846,000 includes bonuses of £27,000, employer pension contributions of £20,000 and benefits of £56,000, so that salaries amounted to £743,000.

(3) In 2016, Proximity Communications Ltd paid £13,000 (2015: £64,000) 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 £57,000 (2015: £11,000) to a company of which Mrs Nabavi is a shareholder and director in respect of consultancy services provided to the Company during the year.

(5) In 2016, in addition to his fees as a director stated above, the Company paid £61,000 (2015: £20,000) to a company of which Mr Taylor is a shareholder and director in respect of consultancy services provided to the Company during that year.

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 report of the directors on page 30. These include holdings under the Company's Share Incentive Plan, to which all of the executive directors subscribe.

Share options

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

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

All options have vested.

On 20 August 2015 the directors of the Company approved the adoption of the Maintel 2015 Long-Term Incentive Plan.

The following options remain outstanding under the Plan:

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

These options will vest on 27 April 2019 and may be exercised from that date; they are not subject to any performance conditions.

Subject to performance conditions				
Stuart Legg ⁽¹⁾	25,000	27 April 2016	1p	27 April 2026
Kevin Stevens ⁽²⁾	15,000	27 April 2016	1p	27 April 2026
Mark Townsend ⁽³⁾	15,000	27 April 2016	1p	27 April 2026

(1) Full vesting for the LTIP grants made to Stuart Legg is subject to three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) The Company's EV/EBITDA ratio being in excess of its peer group for the majority of the 6 months prior to the option vesting, and (c) achievement of the Group sales target as set in the budget agreed by the board each year.

(2) In the case of Kevin Stevens, full vesting is subject to the achievement of a minimum level of synergies achieved following the acquisition of Azzurri.

(3) In the case of Mark Townsend, full vesting is subject to two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the 6 months prior to the option vesting.

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

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

	2016 Number of options	2016 WAEP	2015 Number of options	2015 WAEP
Outstanding at the beginning of the year	245,636	276p	299,545	245p
Granted during the year	68,636	176p	–	–
Exercised during the year	–	–	(53,909)	100p
Outstanding at the end of the year	314,272	254p	245,636	276p

The Company's mid-market share price at 31 December 2016 was 887.5p per share, and the high and low prices during the year were 1130p and 692.5p respectively.

Share Incentive Plan

In 2006 the Company established the Maintel Holdings Plc Share Incentive Plan ("SIP"), which was updated in 2016. The SIP is open to all employees with at least 6 months' continuous service with a Group company, and allows employees and executive directors to subscribe for existing shares in the Company at open market price out of their gross salary. The subscribers own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan. At 31 December 2016 there were 62,151 shares held by the SIP, representing 0.4% of the issued share capital of the Company (2015: 86,670 and 0.8%).

The report of the remuneration committee was approved by the board on 17 March 2017.

A P Nabavi

Chair of the remuneration committee

Report of the directors

for the year ended 31 December 2016

The directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

Results and dividends

The consolidated statement of comprehensive income is set out on page 34 and shows the profit of the Group for the year.

During the year the Company paid a second interim dividend of 16.5p per ordinary share in respect of the 2015 financial year, amounting to £1.777m (2015: 11.6p, amounting to £1.243m), and an interim dividend in respect of 2016 of 13.4p per share, amounting to £1.902m (2015: 12.8p and £1.378m respectively). A final dividend for 2016 is proposed of 17.4p per share with a payment date of 18 May 2017.

Directors

The directors of the Company as at 31 December 2016 and their interests in the ordinary shares of the Company at that date were as follows:

	Number of 1p ordinary shares			
	2016 Beneficial	2016 Non- beneficial	2015 Beneficial	2015 Non- beneficial
J D S Booth	3,336,123	–	2,760,301	–
E Buxton	4,813	57,338	4,654	81,816
S D Legg	130	–	–	–
A J McCaffery	2,198,959	–	2,055,629	–
A P Nabavi	198	–	–	–
K Stevens	2,939	–	2,671	–
N J Taylor	16,315	62,151	15,947	77,523
M V Townsend	208	–	–	–

John Booth's shareholding includes 4,000 shares inherited by a charitable foundation controlled by him. He is also a shareholder in Herald Investment Trust plc which has an interest in 804,217 1p ordinary shares in the Company; this is in addition to Mr Booth's beneficial holding above.

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 acquired a net increased holding of 1,374 shares in total, including 178 in respect of E Buxton, 30 in respect of S Legg and 31 in respect of K Stevens. There were no other changes in the directors' shareholdings between 31 December 2016 and 17 March 2017.

Substantial shareholders

In addition to the directors' shareholdings, at 17 March 2017 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
Marlborough Fund Managers Ltd	2,462,340	17.3%
J A Spens	2,088,314	14.7%
Herald Investment Trust plc	804,217	5.7%

Share capital

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

3,428,572 shares were issued in the year in relation to the acquisition of Azzurri; no shares were repurchased during the year.

The existing authority for the repurchase of the Company's shares is for the purchase of up to 1,614,196 shares. A fresh authority, for the purchase of up to 2,128,139 shares, will be sought at the forthcoming annual general meeting.

Employees

Maintel's success is dependent on the knowledge, experience and motivation of its employees, and 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 compliance with both statutory regulation and best practice with regard to equal opportunities.

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

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 executive directors to invest tax effectively in its shares, and so aligning employee interests with those of shareholders. This has now been extended to all employees joining from Azzurri. 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. The Group also makes use of in-house video-conferencing facilities to reduce the need for regional meetings. The Group has ISO14001:2004 accreditation for its environmental management systems.

Modern Slavery Act policy

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

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

This policy reflects our commitment to maintaining ethical practices in all of our supply chains and across all of our business, and as part of this commitment we are undertaking

various steps to help us manage the risks outlined by this legislation. These steps are detailed in our modern slavery statement and, as required by the act, will be published annually on our website at www.maintel.co.uk/legal/policies.

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 London offices on 15 May 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

17 March 2017

Statement of directors' responsibilities

Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, 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 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company balance sheet, the company reconciliation of movement in shareholders' funds 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 2016 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, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters 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.

Julian Frost (senior statutory auditor)

For and on behalf of BDO LLP
statutory auditor

London
United Kingdom

17 March 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	4	108,296	50,623
Cost of sales		(73,383)	(31,571)
Gross profit		34,913	19,052
Other operating income		151	12
Administrative expenses			
Intangibles amortisation	14	(4,733)	(2,235)
Exceptional costs	12	(4,240)	(884)
Other administrative expenses		(23,064)	(11,530)
		(32,037)	(14,649)
Operating profit	7	3,027	4,415
Financial expense (net)	8	(920)	(264)
Profit before taxation		2,107	4,151
Taxation expense	9	(13)	(69)
Profit for the period and attributable to owners of the parent		2,094	4,082
Other comprehensive (expense)/income for the period			
Exchange differences on translation of foreign operations		(40)	41
Total comprehensive income for the period		2,054	4,123
Earnings per share			
Basic	11	16.0p	38.0p
Diluted	11	15.8p	37.5p

The results above for both periods are in respect of continuing operations.

The notes on pages 38 to 58 form part of these consolidated financial statements.

Consolidated statement of financial position

at 31 December 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Non current assets					
Intangible assets	14		63,152		18,132
Property, plant and equipment	16		3,293		673
			66,445		18,805
Current assets					
Inventories	17	4,882		1,298	
Trade and other receivables	18	29,371		11,040	
Cash and cash equivalents		10,884		2,784	
Total current assets			45,137		15,122
Total assets			111,582		33,927
Current liabilities					
Trade and other payables	19	50,096		20,276	
Current tax liabilities		527		257	
Borrowings	20	–		2,000	
Total current liabilities			50,623		22,533
Non-current liabilities					
Deferred tax liability	21	2,020		834	
Borrowings	20	30,688		4,000	
Total non-current liabilities			32,708		4,834
Total liabilities			83,331		27,367
Total net assets			28,251		6,560
Equity					
Issued share capital	23		142		108
Share premium	24		24,354		1,169
Other reserves	24		79		119
Retained earnings	24		3,676		5,164
Total equity			28,251		6,560

The consolidated financial statements were approved and authorised for issue by the board on 17 March 2017 and were signed on its behalf by:

M Townsend
Director

The notes on pages 38 to 58 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
At 1 January 2015		107	1,116	78	3,703	5,004
Profit for the period		–	–	–	4,082	4,082
Other comprehensive income:						
Foreign currency translation differences		–	–	41	–	41
Total comprehensive income for the period		–	–	41	4,082	4,123
Dividend	10	–	–	–	(2,621)	(2,621)
Issue of new ordinary shares		1	53	–	–	54
At 31 December 2015		108	1,169	119	5,164	6,560
Profit for the period		–	–	–	2,094	2,094
Other comprehensive income:						
Foreign currency translation differences		–	–	(40)	–	(40)
Total comprehensive income for the period		–	–	(40)	2,094	2,054
Dividend	10	–	–	–	(3,679)	(3,679)
Issue of new ordinary shares	23	34	23,966	–	–	24,000
Share issue costs		–	(781)	–	–	(781)
Grant of share options		–	–	–	97	97
At 31 December 2016		142	24,354	79	3,676	28,251

The notes on pages 38 to 58 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

	2016 £000	2015 £000
Operating activities		
Profit before taxation	2,107	4,151
Adjustments for:		
Intangibles amortisation	4,733	2,235
Share based payment charge	97	–
Profit on sale of fixed asset	–	4
Depreciation charge	598	191
Interest received	(3)	(1)
Interest payable	923	265
Operating cash flows before changes in working capital	8,455	6,845
(Increase)/decrease in inventories	(949)	138
Decrease in trade and other receivables	990	1,379
Increase/(decrease) in trade and other payables	2,328	(533)
Cash generated from operating activities (see sub analysis below)	10,824	7,829
Cash generated from operating activities excluding exceptional costs	15,064	8,713
Exceptional cost – excluding acquisition legal and professional costs below (note 12)	(1,725)	(884)
Cash generated from operating activities excluding acquisition legal and professional costs	13,339	7,829
Exceptional cost – acquisition legal and professional costs	(2,515)	–
Cash generated from operating activities	10,824	7,829
Tax paid	(236)	(1,048)
Net cash flows from operating activities	10,588	6,781
Investing activities		
Purchase of plant and equipment	(438)	(554)
Purchase of software	(132)	–
Purchase price in respect of business combination	(47,028)	–
Net cash acquired with subsidiary undertaking	1,595	–
	(45,433)	–
Interest received	3	1
Net cash flows from investing activities	(46,000)	(553)
Financing activities		
Proceeds from borrowings	31,000	–
Repayment of borrowings	(6,000)	(4,000)
Interest paid	(628)	(265)
Issue of new ordinary shares	24,000	54
Share issue costs	(781)	–
Issue costs of debt	(360)	–
Equity dividends paid	(3,679)	(2,621)
Net cash flows from financing activities	43,552	(6,832)
Net increase/(decrease) in cash and cash equivalents	8,140	(604)
Cash and cash equivalents at start of period	2,784	3,347
Exchange differences	(40)	41
Cash and cash equivalents at end of period	10,884	2,784

The notes on pages 38 to 58 form part of these consolidated financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2016

1 General information

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

2 Accounting policies

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

(a) Basis of preparation

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

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

(b) Basis of consolidation

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

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

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent

liabilities are initially recognised at their fair values at the acquisition date. The acquisition related costs are included in the consolidated statement of comprehensive income on an accrual basis. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained until the date on which control ceases.

(c) Revenue

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

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

Managed services and technology

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

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

Network services

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

Mobile

Connection commission received from the mobile network operators on the fixed line revenues are spread over the course of the customer contract term which has changed from the previous policy whereby revenue was recognised on an advance basis.

The customer overspend and bonus payments are recognised monthly, which are also payable by the network operators on a monthly basis.

(d) Operating leases

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

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

(e) Employee benefits

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

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

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

(f) Redundancy costs

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

(g) Interest

Interest income and expense is recognised on an accruals basis.

(h) Taxation

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

Deferred tax is provided using the 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 and capital allowances will be available against which the asset can be utilised.

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

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

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

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

(i) Dividends

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

2 Accounting policies continued

(j) Intangible assets

Goodwill

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

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

Customer relationships

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

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

Product platform

The product platform is stated at fair value as it is acquired through a business combination, less accumulated amortisation. As these assets have been acquired through a business combination, the cost is the fair value allocated in the acquisition accounting.

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

Brand

Brands are stated at fair value as they have been acquired through a business combination, less accumulated amortisation. As these assets have been acquired through a business combination, the cost is the fair value allocated in the acquisition accounting.

Brands are amortised over their estimated useful lives of (i) one year in respect of the Azzurri brand, (ii) eight years in respect of the ICON brand.

Software (Microsoft Licences and Callmedia)

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

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

(k) Impairment of non-current assets

Impairment tests on goodwill are undertaken annually on 31 December. Customer relationships and other assets are subject to impairment tests whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (being the higher of value in use and fair value less costs to sell), the asset is written down accordingly in the administrative expenses line 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.

(l) Property, plant and equipment

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

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

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

(m) Inventories

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

(n) Cash and cash equivalents

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

(o) Financial assets and liabilities

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

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

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

(p) Borrowings

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

(q) Foreign currency

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

On consolidation, the results of MIL are translated into sterling at rates approximating those ruling when the transactions took place. All assets and liabilities of MIL, including goodwill arising on its acquisition, are translated at the rate ruling at the reporting date.

(r) 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 consolidated financial statements, nor are there any impending IFRSs that are expected to have a material effect on the Group's consolidated financial statements.

The Group notes IFRS15 *Revenue from Contracts with Customers* which is to be adopted for all accounting periods beginning on or after 1 January 2018. At this time, it is not practical to provide a reasonable estimate in relation to the effect of IFRS15 until a detailed review has been completed.

In assessing any impact during the detailed review the Group will consider the revenue streams and current recognition policies, as disclosed in (c) above, in relation to the move from the recognition of revenue on the transfer of risks and rewards to the transfer of control.

The Group also notes IFRS16 *Leases* which takes effect and will be adopted in 2019. This IFRS will require the Group to recognise the lease on its premises as both an asset and a rental commitment in its consolidated statement of financial position, but is not expected to have material effect on the Group's profitability.

3 Accounting estimates and judgements

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

Deferred tax asset relating to brought forward losses

At 31 December 2016 the directors have had to assess the validity of the carrying value of tax losses attributable to the Datapoint UK companies that might be used against future profits, shown in note 21, which involves estimating the companies' profitability.

Deferred tax asset relating to capital allowances

At 31 December 2016 the directors have had to assess the validity of the carrying value of capital allowances attributable to the acquired Azzurri companies that might be used against future profits, shown in note 21, which involves estimating the companies' profitability.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

4 Segment information

Year ended 31 December 2016

For management reporting purposes and operationally, the Group consists of three business segments:

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

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

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

Revenue is wholly attributable to the principal activities of the Group and other than sales of £8.8m to EU countries and £1.0m to the rest of the world (2015: £4.3m to EU countries, and £1.0m to the rest of the world), arises within the United Kingdom.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £0.1m (2015: £0.1m) attributable to the managed services and technology segment, £0.1m (2015: £0.1m) to the network services segment and immaterial amounts to the mobile segment in each year.

In 2016 the Group had no customer (2015: one) which accounted for more than 10% of its revenue (amount in 2015: £5.4m).

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

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

Year ended 31 December 2015

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

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

5 Employees

	2016 Number	2015 Number
The average number of employees, including directors, during the year was:		
Corporate and administration	100	40
Sales and customer service	199	99
Technical and engineering	249	138
	548	277
Staff costs, including directors, consist of:	£000	£000
Wages and salaries	28,565	15,323
Social security costs	3,252	1,816
Pension costs	600	285
	32,417	17,424

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 £143,000 (2015: £62,000) were payable to the schemes at the year-end and are included in other payables.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

6 Directors' remuneration

The remuneration of the Company directors was as follows:

	2016 £000	2015 £000
Directors' emoluments	1,181	826
Pension contributions	27	20
	1,208	846

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

	2016 £000	2015 £000
Directors' emoluments	266	207
Pension contributions	6	6
	272	213

The Group paid contributions into defined contribution personal pension schemes in respect of 8 directors during the year, 2 of whom were auto-enrolled at minimal contribution levels, and 1 was on both (2015: 7, 3 auto-enrolled).

In 2015, the aggregate amount of gains made by directors on the exercise of share options in the year was £291,000, all of which related to the highest paid director (2016: £Nil). The above table excludes these amounts.

Further details of director remuneration are shown in the remuneration committee report on page 26.

7 Operating profit

	2016 £000	2015 £000
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	598	191
Amortisation of intangible fixed assets	4,733	2,235
Operating lease rentals payable:		
property	982	885
plant and machinery	377	78
Operating lease rentals receivable - property	(151)	(12)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	16	9
Fees payable to the Company's auditor for other services:		
due diligence and other acquisition costs	434	–
audit of the Company's subsidiaries pursuant to legislation	229	114
audit-related assurance services	58	25
tax compliance services	44	22
Foreign exchange movement	(33)	44

8 Financial income and expense

	2016 £000	2015 £000
Interest receivable on bank deposits	3	1
Interest payable on bank loans	923	265

9 Taxation

	2016 £000	2015 £000
<i>UK corporation tax</i>		
Corporation tax on profits of the period	512	610
Prior year adjustment	(5)	(133)
	507	477
Deferred tax (note 21)	(494)	(408)
Taxation on profit on ordinary activities	13	69

The standard rate of corporation tax in the UK for the period was 20%, and therefore the Group's UK subsidiaries are taxed at that rate. Reductions in rate to 19% with effect from 1 April 2017 and 17% from 1 April 2020 were substantively enacted on 15 September 2016 and the projected effect of these reductions on the unwinding of deferred tax liabilities has been credited to the income statement at £275,000 (2015: £Nil). 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:

	2016 £000	2015 £000
Profit before tax	2,107	4,151
Profit at the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	421	841
Effect of:		
Expenses not deductible for tax purposes, net of reversals	510	15
Capital allowances in excess of depreciation	(26)	(26)
Effects of change in tax rates	(120)	(36)
Effects of overseas tax rates	(2)	(32)
Relief on option exercise	–	(62)
Prior year adjustment	5	(133)
Increase in deferred tax asset relating to Datapoint tax losses (note 21)	(500)	(500)
Decrease in deferred tax liability relating to intangible assets (note 21)	(275)	–
Other timing differences	–	2
	13	69

10 Dividends paid on ordinary shares

	2016 £000	2015 £000
Final 2014, paid 1 May 2015 – 11.6p per share	–	1,243
Interim 2015, paid 7 October 2015 – 12.8p per share	–	1,378
Second interim 2015, paid 5 April 2016 – 16.5p per share	1,777	–
Interim 2016, paid 12 October 2016 – 13.4p per share	1,902	–
	3,679	2,621

The directors propose the payment of a final dividend for 2016 of 17.4p (2015: second interim 16.5p) per ordinary share, payable on 18 May 2017 to shareholders on the register at 31 March 2017. The cost of the proposed dividend, based on the number of shares in issue as at 17 March 2017, is £2,470,000 (2015 second interim: £1,777,000).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

11 Earnings per share

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

	2016	2015
	£000	£000
Earnings used in basic and diluted EPS, being profit after tax	2,094	4,082
<i>Adjustments:</i>		
Intangibles amortisation (note 14)	4,733	2,235
Exceptional costs (note 12)	4,240	884
Tax relating to above adjustments	(1,333)	(666)
Deferred tax charge on utilisation of Datapoint tax losses	504	451
Increase in deferred tax asset in respect to Datapoint tax losses	(500)	(500)
Deferred tax charge on utilisation of Azzurri tax losses	642	–
Deferred tax charge on Azzurri profits	100	–
Decrease in deferred tax liability of intangible assets	(275)	–
Adjusted earnings used in adjusted EPS	10,205	6,486

Datapoint has brought forward tax losses, so that it will pay no tax in respect of this year's profits. On acquisition, however, a deferred tax asset was recognised in respect of a proportion of its tax losses, and a deferred tax charge of £378,000 has been recognised in the income statement in respect of the nine month period to 30 September profits. On 1 October 2016, the net assets of Datapoint UK entities were hived up into Maintel Europe Limited. Therefore, a further £126,000 deferred tax charge was calculated on a streamed basis and was recognised in the income statement for the three month period to 31 December 2016. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above. An increase of £500,000 in the deferred tax asset relating to Datapoint useable losses was reflected in the income statement and similarly adjusted for above.

Azzurri has brought forward capital allowances and tax losses, so that it will pay no tax in respect of its 2016 profits. On acquisition, a deferred tax asset was acquired in respect of its capital allowances and tax losses, and a deferred tax charge of £100,000 and £642,000 respectively has been recognised in the income statement in respect of the period's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

A decrease of £275,000 in the deferred tax liability relating to intangible assets was reflected in the income statement and similarly adjusted for above.

	2016	2015
	Number	Number
	(000s)	(000s)
Weighted average number of ordinary shares of 1p each	13,092	10,754
Potentially dilutive shares	204	145
	13,296	10,899
<i>Earnings per share</i>		
Basic	16.0p	38.0p
Basic and diluted	15.8p	37.5p
Adjusted - basic but after the adjustments in the table above	78.0p	60.3p
Adjusted - basic and diluted after the adjustments in the table above	76.8p	59.5p

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.

12 Exceptional costs

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

	2016	2015
	£000	£000
Property-related legal and professional costs	13	110
Acquisition-related redundancy costs	1,263	237
Other redundancy costs	170	–
Cost of rebrand	19	56
Legal and professional fees relating to Azzurri integration	260	–
Legal and professional fees relating to the acquisition of Azzurri	2,515	–
Duplicated occupation and dilapidation costs on London premises	–	391
Rent penalty on Dublin premises	–	90
	4,240	884

13 Business combinations

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

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

Cash flows arising from the acquisition were as follows:

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

13 Business combinations continued

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

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

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

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

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

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

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

Since its acquisition, Azzurri has contributed the following to the results of the Group before management charges of £1.1m:

	£000
Revenue	57,783
Profit before tax	2,506

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

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

14 Intangible assets

	Goodwill £000	Customer relationships £000	Brands £000	Product platform £000	Software £000	Total £000
<i>Cost</i>						
At 1 January 2015	10,172	15,252	–	–	–	25,424
At 31 December 2015	10,172	15,252	–	–	–	25,424
Acquired in the year	26,262	16,030	3,480	1,299	2,550	49,621
Additions	–	–	–	–	132	132
At 31 December 2016	36,434	31,282	3,480	1,299	2,682	75,177
<i>Amortisation and impairment</i>						
At 1 January 2015	317	4,740	–	–	–	5,057
Amortisation in the year	–	2,235	–	–	–	2,235
At 31 December 2015	317	6,975	–	–	–	7,292
Amortisation in the year	–	3,631	408	108	586	4,733
At 31 December 2016	317	10,606	408	108	586	12,025
<i>Net book value</i>						
At 31 December 2016	36,117	20,676	3,072	1,191	2,096	63,152
At 31 December 2015	9,855	8,277	–	–	–	18,132

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:

	2016 £000	2015 £000
Network services division	21,134	443
Managed service and technology division	11,676	8,861
Mobile division	3,307	551
	36,117	9,855

For the purposes of the impairment review of goodwill, the net present value of the projected future cash flows of the relevant cash generating unit are compared with the carrying value of the net assets for that unit; where the recoverable amount of the cash generating unit is less than the carrying amount of the net assets, an impairment loss is recognised. Projected operating margins for this purpose are based on a five year horizon and 3% rate of growth, and a pre-tax discount rate of 14% is applied to the resultant projected cash flows. The Group's impairment assessment at 31 December 2016 indicate that there is significant headroom for each unit.

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

Fully amortised intangibles with a combined cost of £1.860m (2015: £1.413m) relating to the District Holdings Limited, Callmaster Limited and Redstone acquisitions are included within intangibles and are still used within the business.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

15 Subsidiaries

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

Maintel Europe Limited
 Maintel International Limited (previously Datapoint Communications Limited)
 Azzurri Communications Limited (acquired on 4 May 2016)

The acquisition of Azzurri Communications Limited was effected by the acquisition of its parent company, Warden Holdco Limited on 4 May 2016. Warden Holdco Limited is the ultimate holding company of Azzurri Communications Limited and its subsidiaries. Warden Midco Limited, Azzurri Holdings Limited and Azzurri Capital Limited are intermediate holding companies of Azzurri Communications Limited and its subsidiaries.

Both Maintel Europe Limited and Azzurri Communications Limited provide goods and services in the managed services and technology sector, network services and mobile services. Maintel International Limited provides goods and services in the managed services and technology sector.

The following subsidiaries of the Company were dormant as at 31 December 2016:

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

The following subsidiaries of the Company were dormant and were in the process of being dissolved as at 31 December 2016:

Maintel London Limited (dissolved on 17 January 2017)	Unified Communications Limited (dissolved on 17 January 2017)
DVH Group Limited	Wireless Air Ware Limited
Azzurri Scotland Limited	Sirocom Limited
Siroconnect Limited	Azzurri Trustees Limited
Netwise Systems Limited	FH Brown Office Technologies Limited
Azzurri Mobile Limited	Focus Communications International Limited
Azzurri Data Limited	Callmedia Limited
MiTech Europe Limited	MiTech Group Limited
MiTech Digitalk Limited	MiTech Services Limited
Smart Connection Company Limited	MiTech AMS Limited
MiSpace Limited	Plenitude Data Services Limited
Smart House (UK) Limited	

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

Each subsidiary, other than Maintel International Limited and Azzurri Scotland Limited, has the same registered address as the parent. Maintel International Limited's registered address is 9 Clanwilliam Square, Grand Canal Quay, Dublin 2, Ireland. Azzurri Scotland Limited's registered address is Turcan Connell, Princes Exchange, 1 Earl Grey Street, Edinburgh, EH3 9EE, Scotland.

16 Property, plant and equipment

	Freehold building £000	Leasehold improvements £000	Office and computer equipment £000	Motor vehicles £000	Total £000
<i>Cost or valuation</i>					
At 1 January 2015	–	571	2,475	47	3,093
Additions	–	336	218	–	554
Disposals	–	(489)	(1,221)	–	(1,710)
Exchange differences	–	(4)	(3)	–	(7)
At 31 December 2015	–	414	1,469	47	1,930
Additions	–	18	420	–	438
On acquisition of Azzurri	1,768	1,128	5,562	–	8,458
Exchange differences	–	2	–	–	2
At 31 December 2016	1,768	1,562	7,451	47	10,828
<i>Depreciation</i>					
At 1 January 2015	–	553	2,192	34	2,779
Provided in year	–	11	168	12	191
Disposals	–	(488)	(1,218)	–	(1,706)
Exchange differences	–	(5)	(2)	–	(7)
At 31 December 2015	–	71	1,140	46	1,257
On acquisition of Azzurri	147	825	4,708	–	5,680
Provided in year	17	119	461	1	598
At 31 December 2016	164	1,015	6,309	47	7,535
<i>Net book value</i>					
At 31 December 2016	1,604	547	1,142	–	3,293
At 31 December 2015	–	343	329	1	673

The significant level of disposals in the previous year, mostly fully depreciated assets, primarily relates to (a) the cessation of use of the ERP system acquired with Datapoint, and (b) leasehold improvements, furniture and IT equipment disposed of on the vacation of three properties during that year; the additions in the current year relate to continued investment in the ICON platform and expanding capacity in the data centre infrastructure.

17 Inventories

	2016 £000	2015 £000
Maintenance stock	1,970	1,008
Stock held for resale	2,912	290
	4,882	1,298
Cost of inventories recognised as an expense	17,274	8,579

Provisions of £542,000 were made against the maintenance stock in 2016 (2015: £79,000), with no reversal of provisions having been made in either year.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

18 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	17,383	7,147
Other receivables	388	9
Prepayments and accrued income	11,600	3,884
	29,371	11,040

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

19 Trade and other payables

	2016	2015
	£000	£000
Trade payables	9,909	5,148
Other tax and social security	4,658	1,650
Accruals	9,161	3,158
Other payables	4,344	601
Deferred managed service income	16,012	9,003
Other deferred income	6,012	716
	50,096	20,276

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.

20 Borrowings

	2016	2015
	£000	£000
Non-current bank loan – secured	30,688	4,000
Current bank loan – secured	–	2,000
	30,688	6,000

On 8 April 2016 the Group entered into new facilities with the Royal Bank of Scotland plc to support the acquisition of Azzurri. These consist of a revolving credit facility totalling £36.0m in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20.0m in uncommitted accordion facilities) and replaced the Company's existing term and revolving credit facilities with Lloyds Bank plc which were fully repaid and terminated.

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

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

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

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis starting from 31 December 2016; these tests have been passed for 31 December 2016.

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 2015	10	2,144	(904)	(8)	1,242
Charge/(credit) to consolidated statement of comprehensive income	79	(440)	451	2	92
Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses	–	–	(500)	–	(500)
Net liability at 31 December 2015	89	1,704	(953)	(6)	834
Liability established against intangible assets acquired during the year	–	4,319	–	–	4,319
Asset acquired with Azzurri	(1,997)	–	(642)	–	(2,639)
Charge/(credit) to consolidated statement of comprehensive income	85	(948)	1,146	(2)	281
Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses	–	–	(500)	–	(500)
Credit to consolidated statement of comprehensive income in respect of revaluation of liability against intangible assets	–	(275)	–	–	(275)
Net liability at 31 December 2016	(1,823)	4,800	(949)	(8)	2,020

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

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

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

21 Deferred taxation continued

The asset relating to the use of tax losses is based on the directors' judgement of a range of factors influencing their anticipated use. A further undiscounted deferred tax asset of £1.2m (2015: £1.8m) 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 9, the corporation tax rate will reduce from 20% to 19% with effect from 1 April 2017 and to 17% from 1 April 2020. The deferred tax liability balance at 31 December 2016 has been calculated on the basis that they will unwind at the rate prevailing at the time of the amortisation charge. Based on their projected rate of unwinding and applying the reduced future rates would result in a decreased deferred tax charge in the consolidated statement of comprehensive income for the year, and an adjustment of £275,000 (2015: £Nil) to revalue the liability has been credited to the income statement in the current year.

22 Financial instruments

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

	Loans and receivables	
	2016 £000	2015 £000
<i>Current financial assets</i>		
Trade receivables	17,383	7,147
Cash and cash equivalents	10,884	2,784
Other receivables	388	9
	28,655	9,940
	Financial liabilities measured at amortised cost	
	2016 £000	2015 £000
<i>Non-current financial liabilities</i>		
Secured bank loan	30,688	4,000
<i>Current financial liabilities</i>		
Trade payables	9,909	5,148
Other payables	4,344	601
Other tax and social security	4,658	1,650
Accruals	9,161	3,158
Secured bank loan	–	2,000
	28,072	12,557

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

Credit risk

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

At the reporting date, the largest exposure was represented by the carrying value of trade and other receivables, against which £416,000 is provided at 31 December 2016 (2015: £157,000). The provision represents an estimate of potential bad debt in respect of the year-end trade receivables, a review having been undertaken of each such year-end receivable. The largest individual receivable included in trade and other receivables at 31 December 2016 owed the Group £3.1m including VAT (2015: £1.6m). 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:

	2016 £000	2015 £000
Provision at start of year	157	218
Acquired provision of Azzurri	766	–
Provision used	(442)	(89)
Additional provision (reversed)/made	(65)	28
Provision at end of year	416	157

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:

	2016 £000	2015 £000
Up to 30 days overdue	2,258	1,707
31–60 days overdue	148	271
More than 60 days overdue	15	8
	2,421	1,986

Cash and cash equivalents at 2016 and 2015 year-ends are represented by cash and short term deposits, primarily with Royal Bank of Scotland and Lloyds Bank plc.

Foreign currency risk

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

Interest rate risk

The Group had borrowings of £31.0m at 31 December 2016 (2015: £6.0m), together with a £5.0m overdraft facility (2015: £1.0m). The interest rate charged is related to LIBOR and bank rate respectively and will therefore change as those rates change. If interest rates had been 0.5% higher/lower during 2016, and all other variables were held constant, the Group's profit for the year would have been £139,000 (2015: £48,000) higher/lower due to the variable interest element on the loan.

The Group expects to be in a net borrowing position in the immediate future, and received only £3,000 interest during the year (2015: £1,000).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

22 Financial instruments continued

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 payable on borrowings is dependent on the prevailing rates of interest from time to time.

Capital risk management

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

23 Share capital

	Authorised			
	2016 Number	2015 Number	2016 £000	2015 £000
Ordinary shares of 1p each	–	17,571,840	–	176

	Allotted, called up and fully paid			
	2016 Number	2015 Number	2016 £000	2015 £000
Ordinary shares of 1p each	14,197,059	10,768,487	142	108

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

3,428,572 shares were issued in the year in relation to the acquisition of Azzurri; no shares were repurchased during the year.

24 Reserves

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

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

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

The directors propose the payment of a final dividend in respect of 2016 of 17.4p 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, which was updated in 2016. The SIP is open to all employees and executive directors with at least 6 months' continuous service with a Group company, and allows them to subscribe for existing shares in the Company out of their gross salary. The shares are bought by the SIP on the open market. The employees and directors own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 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 and on 20 August 2015 they approved the Maintel 2015 Long-Term Incentive Plan.

The remuneration committee's report on page 26 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 2.2% 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, the Group had future minimum rentals payable under non-cancellable operating leases as set out below:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
The total future minimum lease payments are due as follow:				
Not later than one year	1,194	253	583	121
Later than one year and not later than five years	3,326	68	2,601	98
Later than five years	2,071	–	2,663	–
	6,591	321	5,847	219

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

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

	2016 Land and buildings £000	2015 Land and buildings £000
The total future minimum lease payments are due as follow:		
Not later than one year	145	129
Later than one year and not later than five years	155	257
	300	386

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2016

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:

	2016 £000	2015 £000
Short term employment benefits	1,679	1,409
Contributions to defined contribution pension scheme	37	25
	1,716	1,434

Other transactions

The Group traded during the year with E Buxton, A J McCaffery and K Stevens. Transactions in 2016 and 2015 amounted in aggregate to less than £1,200 in each case.

The Group did not trade during the current year with The Imaginarium Studios Limited, a company in which J D S Booth is a shareholder. Imaginarium purchased telecommunication services from the Group in the previous year amounting to £3,000, of which no amounts were owed at 2015 year-end.

In 2016, the Company paid fees of £61,000 to Hopton Hill Limited, a company of which N J Taylor is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Azzurri (2015: £Nil).

The Company paid fees of £57,000 to Anchusa Consulting Limited, a company of which A P Nabavi is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Azzurri (2015: Other consultancy; £11,000).

In the current year, Proximity paid £13,000 (2015: £64,000) to TCB Consulting, a company of which D K Boyce is a shareholder and director, in respect of consultancy services provided to the Company.

The Group paid customer introduction related commissions in the previous year to J A Spens, a shareholder in the Company, amounting to £3,000 and no amounts were owed at the 2015 year-end. No such transaction occurred in 2016.

29 Post balance sheet events

On 1 January 2017, as part of the integration of the Azzurri business, its business and assets were hived up into Maintel Europe.

Company balance sheet

at 31 December 2016 – prepared under FRS101

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Investment in subsidiaries	4		49,560		22,225
Current assets					
Debtors	5	10,298		404	
Cash at bank and in hand		1,499		71	
		11,797		475	
Creditors: amounts falling due within one year					
Creditors	6	630		7,010	
Borrowings	7	–		2,000	
Net current assets/(liabilities)			11,167		(8,535)
Creditors: amounts falling due after one year					
Borrowings	7		(30,688)		(4,000)
Total assets less current liabilities			30,039		9,690
Capital and reserves					
Called up share capital	8		142		108
Share premium			24,354		1,169
Capital redemption reserve			31		31
Profit and loss account			5,512		8,382
Shareholders' funds			30,039		9,690

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 £712,000 (2015: £2,484,000). The auditor's remuneration for audit services to the Company in the year was £16,000 (2015: £9,000).

The Company financial statements were approved and authorised for issue by the board on 17 March 2017 and were signed on its behalf by:

M Townsend
Director

The notes on pages 61 to 64 form part of these financial statements.

Reconciliation of movement in shareholders' funds

for the year ended 31 December 2016 – prepared under FRS101

	Note	Share capital £000	Share premium £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2015		107	1,116	31	8,519	9,773
Profit and total comprehensive income for year		–	–	–	2,484	2,484
Dividends paid		–	–	–	(2,621)	(2,621)
Issue of new ordinary shares		1	53	–	–	54
At 31 December 2015		108	1,169	31	8,382	9,690
Profit and total comprehensive income for year		–	–	–	712	712
Dividends paid	3	–	–	–	(3,679)	(3,679)
Issue of new ordinary shares	8	34	23,966	–	–	24,000
Share issue costs		–	(781)	–	–	(781)
Grant of share options		–	–	–	97	97
At 31 December 2016		142	24,354	31	5,512	30,039

The notes on pages 61 to 64 form part of these financial statements.

Notes forming part of the Company financial statements

at 31 December 2016

1 Accounting policies

The Company financial statements have been prepared in accordance with Financial Reporting Standard 100 *Application of Financial Reporting Requirements* and Financial Reporting Standard 101 *Reduced Disclosure Framework* with effect from 1 January 2014.

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

(a) Basis of preparation

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

(b) Investments

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

(c) Taxation

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

(d) Dividends

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

(e) Disclosure exemptions adopted

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

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

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

- share based payments;
- financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- impairment of assets.

Notes forming part of the Company financial statements continued

at 31 December 2016

1 Accounting policies continued

(f) Judgements and key areas of estimation uncertainty

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

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

2 Employees

The employees of the Company are its directors' and their remuneration is disclosed in the remuneration report on page 26.

3 Dividends paid on ordinary shares

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

4 Investment in subsidiaries

	Shares in subsidiary undertakings £000
At 31 December 2015 and 1 January 2015	24,905
Additions in the year	47,028
Intercompany disposals in the year	(22,293)
At 31 December 2016	49,640
<i>Provision for impairment</i>	
At 1 January 2015	80
Provision for impairment in the year	2,600
At 31 December 2015	2,680
Intercompany disposals in the year	(2,600)
At 31 December 2016	80
<i>Net book value</i>	
At 31 December 2016	49,560
At 31 December 2015	22,225

On 4 May 2016 the Company acquired the entire share capital of Warden Holdco Limited, whose main trading entity is Azzurri Communications Limited, for a gross consideration of £47.0m, paid in cash.

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

5 Debtors

	2016 £000	2015 £000
Amounts owed by subsidiary undertakings	9,993	221
Other tax and social security	46	16
Prepayments and accrued income	55	46
Corporation tax recoverable	204	121
	10,298	404

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

6 Creditors

	2016 £000	2015 £000
Amounts due to subsidiary undertakings	294	6,934
Trade creditors	41	39
Accruals and deferred income	295	37
	630	7,010

7 Borrowings

	2016 £000	2015 £000
Non-current bank loans – secured	30,688	4,000
Current bank loans – secured	–	2,000
	30,688	6,000

On 8 April 2016 the Group entered into new facilities with the Royal Bank of Scotland plc to support the acquisition of Azzurri. These consist of a revolving credit facility totalling £36.0m in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20.0m in uncommitted accordion facilities) and replaced the Company's existing term and revolving credit facilities with Lloyds Bank plc which were fully repaid and terminated.

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

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

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

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis starting from 31 December 2016; these tests have been passed for 31 December 2016.

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 continued

at 31 December 2016

8 Share capital

	Authorised			
	2016 Number	2015 Number	2016 £000	2015 £000
Ordinary shares of 1p each	–	17,571,840	–	176

	Allotted, called up and fully paid			
	2016 Number	2015 Number	2016 £000	2015 £000
Ordinary shares of 1p each	14,197,059	10,768,487	142	108

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

3,428,572 shares were issued in the year in relation to the acquisition of Azzurri; no shares were repurchased during the year.

9 Related party transactions

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

10 Contingent liabilities

As security on the Group's loan and overdraft facilities, the Company has entered into a cross guarantee with its subsidiary undertakings in favour of Royal Bank of Scotland. At 31 December 2016 each subsidiary undertaking had a net cash balance.

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

Directors, Company details and advisers

Directors

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

Secretary and registered office

W D Todd
160 Blackfriars Road
London
SE1 8EZ

Company number

3181729

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Nominated broker and nominated adviser

finnCap Limited
60 New Broad Street
London
EC2M 1JJ

Registrars

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

Maintel Holdings Plc

160 Blackfriars Road
London
SE1 8EZ