Annual Report & Accounts

Maintel Holdings Plc

2018

maintel

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Maintel is a cloud and managed services company, focused on communication. Our people become trusted advisors for our clients, creating value by helping them improve their business through digital transformation.

We work with organisations to make their people more effective and productive with digital workplace technology; we help them to acquire, develop and retain their own customers through customer experience technology and we ensure they can always connect to their applications and their data through secure networks.

↑ 8%
£136.5m
Group revenue
(2017: £126.8m)

↑ 17%
£12.7m
Group adjusted EBITDA[1]
(2017: £10.9m)

↑ 2%
34.5p
Full year dividend per share
(2017: 33.8p)

↑ 20%
65.5p
Adjusted earnings per share[2]
(2017: 54.7p)

"During the year we have delivered significant increases in all our key financial metrics, notwithstanding the challenging market backdrop, whilst continuing to make progress in our continued transformation to a cloud and managed services business. Growth in contracted seats on our ICON platform accelerated in the fourth quarter of the year and we have delivered several exciting new customer wins, including two multi-year public sector contracts with the NHS, which on implementation will be our largest cloud contracts to date. In addition, we continue to invest in developing and improving our platform and services offering, to increase our addressable market going forward. As a result, the Board remains confident in delivering growth in revenue and EBITDA in the full year to 31 December 2019, in line with expectations."

Eddie Buxton
Maintel CEO

[1] Adjusted EBITDA is EBITDA of £10.7m (2017: £9.2m), adjusted for interest, tax, depreciation and amortisation, exceptional costs and share based payments (note 12).
[2] Adjusted earnings per share is basic earnings per share of 14.4p (2017: 10.8p), adjusted for intangibles amortisation, exceptional costs, interest charge on deferred consideration, share based payments and deferred tax charges related to loss reliefs from previous acquisitions of Datapoint and Azzurri (note 11). The weighted average number of shares in the period was 14.2m (2017: 14.2m).

Strategic report

Chairman's statement

"The Group's transformation to a cloud and managed services business is marked by significant growth in both areas – 38% growth in cloud subscribers and 10% growth in managed services. We believe Maintel is thus perfectly positioned to capitalise on current and future growth opportunities"

John Booth
Chairman

I am pleased to report that in the year ended 31 December 2018 Maintel made considerable progress on its strategic transition to a cloud and managed services company, delivering increases in all its key financial metrics.

The Group's revenue grew by 8% to £136.5m with growth in gross profit of 7% to £39.1m and growth in adjusted EBITDA of 17% to £12.7m. Adjusted earnings per share increased 20% to 65.5p and we are proposing a final dividend per share of 19.5p, up 2% on last year, giving a 2% increase in the dividend for the year.

Price pressure on some of our traditional support revenues, combined with changing dynamics in our sector, led to growth being slower than our expectations at the start of 2018. In response to the changing marketplace, the Group has focused on developing its cloud and managed services base in order to future proof our customer offering and improve our revenue mix.

The number of subscribers on our cloud platform climbed by 38% in the year, coming from both public and private sector clients, while our managed services base grew by around 10%. Cloud related revenues were £20.7m for the year and grew significantly throughout 2018 - a 68% increase from H1 2018 to H2 2018 – and now account for 15% of Group revenues.

We are continuing to win cloud contracts from both our existing base of on-premise customers (52% of cloud customers) and from new customers to the Group (48%) and are pleased to have won two of our largest ever cloud contracts in the fourth quarter of the year.

Our managed service base now stands at £44m, boosted by the acquisition of a customer base from Atos on 1 July 2018. Together with our other contracted revenues (cloud, network services and mobile), recurring revenues make almost 70% of the Group's income.

The Group has a strong base of customers which continues to provide both recurring revenues and project work. This base is increasingly transitioning to cloud and next generation services, supporting the growth in cloud revenues at the expense of some traditional support income. This change in sales mix is expected to increase the proportion of recurring revenue and levels of customer retention.

We have brought together our cloud and software engineering teams in our new Technology Centre in Fareham to incubate and accelerate our growth in those areas and we have invested significantly in our ICON cloud suite to add both capacity and capability, with offerings now across several high-growth markets. We continue to invest for the future in our people, our products and our IT platforms, positioning ourselves to take advantage of the changing marketplace.

In the current uncertain economic and political environment, we remain focused on reducing net debt and maintaining a strong balance sheet. Based on our outlook for the business, we expect that the total dividend paid annually will remain progressive and propose a 2018 final dividend per share of 19.5p (2017: 19.1p), taking full year dividend per share to 34.5p (2017: 33.8p), an increase of 2%.

The commitment and hard work of our excellent employees have enabled us to deliver growth at the same time as significant business transformation and on behalf of the Board and our shareholders, I would like to thank them for this achievement, building our platform for success for the years ahead.

John Booth
Chairman

15 March 2019

Maintel overview

Our company

Maintel is a cloud and managed services company, focused on communications. Our people become trusted advisors for our clients, creating value by helping them improve their business through digital transformation.

How we help our customers

At Maintel, we help our customers to improve their business through digital transformation:

- we make their people more effective and productive with digital workplace technology
- we help them to acquire, develop and retain their own customers through customer experience technology
- we ensure they can always connect to their applications and their data through secure networks

Financial

Revenue:
£136.5m (+8%)

Adjusted earnings per share:
65.5p (+20%)

Adjusted EBITDA margin:
9.3% (+0.7%)

Adjusted EBITDA:
£12.7m (+17%)

Net debt:
£25.5m

Volumetric

Cloud seats:
61,000 (+38%)

Revenues from cloud customers: £20.7m

Managed service base:
£44m (+10%)

Recurring revenues:
69%

Company

600 people

5 locations

Top tier accreditations
with Avaya, Cisco, Mitel & Extreme

Our market & our customers

Maintel provides its cloud and managed communication services primarily to the UK public and private sector.

Our core focus is on organisations with between 250 and 5,000 employees in the private, public and not-for-profit sectors with headquarters in the UK. Although we serve the whole market, we are particularly successful in some key verticals:

Maintel also sells through a number of channel partners, helping them to expand their capabilities and their geographic reach.

We help a range of channel partners, enabling them to broaden their services portfolios, providing managed communications services to complement their existing offerings. Typically working with systems integrators or telecommunications providers seeking to provide a complete outsourced IT function to their multi-national or FTSE250 clients. Maintel Partner Services also provides European implementation, support and managed services for their typically US-based multi-national clients.

Public & not-for-profit sector

Health

We are trusted by more than 40 health trusts to provide them with the mission critical communications services they use to ensure the effective operations of hospitals and community care services.

Local Government

We enable the staff of 35 unitary and other local authorities to better serve a combined total of 15 million citizens.

Social Housing

We enable the smooth running of many UK housing associations, helping them to support the residents of more than 300,000 homes.

We also have many customers in "Blue Light" emergency services (including control room systems), government agencies, large charities and some national government sectors.

Private sector

Retail

We provide services to enable the smooth and secure running of almost 10,000 retail sites and numerous online brands, enabling them to minimise their costs, maximise their information security and better serve their customers.

Financial Services

We help banks, insurers and service providers to securely serve their customers across any channel, providing the right blend of automation, self-service and personalised experience.

Utilities & Services

We help utility providers across energy, telecoms & water to provide their products and services and to service their customers.

We have private sector customers in many other sectors, including transport & logistics, business process outsourcing, entertainment and leisure and professional services.

Maintel overview continued

Digital workplace

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

Our lead cloud services, ICON Communicate for the Enterprise sector and ICON Now for the mid-market sector, are backed up by our partner portfolio, covering all the Gartner Magic Quadrant vendors (Avaya, Cisco, Mitel and Microsoft) together with a significant on-premise managed service base. Many of our clients are transitioning their on-premise technology and investments into our cloud services and we are being successful in winning new-logo business for our UC as a Service ("UCaaS") offering.

Our unified communications practice is backed up by a strong mobile offering, delivering real unified communications on any device, on any network.

Customer experience

Maintel helps businesses to deliver compelling customer experiences online, in the contact centre and in-store, helping them to improve customer acquisition and retention. Maintel's customer experience offer is centred on the implementation and support of omni-channel contact centre technology, self-service channels and analytics.

Maintel partners with leading contact centre technology providers such as Avaya and Verint, and adds its own intellectual property (Callmedia), combined with deep software and integration skills, to help customers provide a genuinely differentiated experience across all channels.

Secure networks

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

Our technology partners include Cisco, Extreme and Fortinet and we work with carriers across the UK and internationally to build and manage networks for our customers that are aimed at keeping their people productive, their customers served and their business continuity assured.

ICON

ICON is Maintel's flagship platform for providing cloud and managed services. The ICON platform itself is a highly secure, highly available, highly scalable cloud and network platform hosted across four top-tier data centres in the UK. From the platform, we deliver these key services:

ICON Communicate

Enterprise class Unified Communications as a Managed Service

Highly secure, highly available, highly customisable, with ICON Communicate we can deliver the flexibility of on-premise technology with the benefits of a cloud delivery model, backed up by Maintel's renowned managed service capability.

ICON Now

True Cloud Communications

Our Unified Communications as a Service offer for the mid-market. Highly capable, simple to use, contract and deploy.

ICON Connect

Cloud-optimised connectivity

Maintel's next-generation managed network service enabling users to access their applications and their data in the office, in the branch, on the move or in their homes.

ICON Contact

Contact Centre as a Service

Our cloud managed contact centre service offering deep application integration, self-service, comprehensive compliance and flexible technology and commercial options.

ICON Gateway

Access to ICON Services

Brings ICON Services to customers who don't yet use Maintel's ICON Connect managed network.

ICON Mobilise

Mobile Device and Application Management as a Service

The management of mobile fleets including security, deployment, applications and financial management.

ICON Secure

Managed Security as a Service

A suite of security services delivered from the cloud as a service, and backed up with expertise from our Security Operations Centre.

Maintel overview
continued

Our people & culture

It is our people who serve our customers, who deliver our cloud and managed services, and who add value to our clients, helping them to transform their businesses for the better. We're proud of our people - our most expensive and our most valuable asset - and know that in today's information economy we have to win the battle to both attract and retain our talent.

Our people strategy

Our people strategy is led by our Chief People Officer and is focused on attracting, retaining and developing the talent we need to be successful, and enabling our people to be effective in work and to develop their careers with Maintel.

The people team supports the business in all aspects of talent management and has been bolstered in the last year with significant investment in Learning & Development with a strong focus on developing Maintel's leadership team to help us to enable our people to reach their full potential.

2018 also saw the launch of a formal graduate intake scheme and significant investment in next generation technology skills adoption.

Our culture

Our culture is an important aspect of who we are – how we enable our people to reach their full potential, how we service our customers, and how we ensure we stay ahead of the curve in a rapidly developing technology sector.

Our values

Our values inform every aspect of how we work with each other and with our customers, how we act corporately and individually, and our tactical and strategic decision making. At Maintel, we are aligned to this established set of values:

We play it straight
Honesty, transparency and integrity in our dealings with each other, our partners and our customers.

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

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

We are empowered, and accept accountability
Doing what's right and taking responsibility. Being accountable for our targets, actions and commitments.

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

We constantly learn and grow
Always learning – never standing still.

Working at Maintel

Maintel's 600 strong workforce is predominantly based in the UK with employees in each of our five UK office locations as well as a large field and home-based community. With virtual teams across wide geographies and 24 hour working to support our customers' mission critical communications systems, Maintel embraces flexible working, using technology and practical leadership strategies to support virtual team working.

Over the last year Maintel has made a significant investment in its property estate and we now operate from five UK locations:

- Maintel's London HQ in Blackfriars Road
- The Maintel Operations Centre in Blackburn – a brand new facility housing our Network Operations Centre, Security Operations Centre, the core of our People team and the core of the financial and billing teams
- The Maintel Technology Centre in Fareham, Hampshire – home to our Software and Cloud Technology division
- A general-purpose office in Aldridge in the West Midlands – the home of our project delivery and network provisioning functions as well as many desk- and field-based sales personnel
- A logistics and distribution centre in Haydock, together with some technical pre-staging facilities

Reflecting the changing nature of work, we have significantly re-configured much of our working space, creating collaboration areas for informal meetings, 1-on-1 booths, quiet spaces and team breakout areas to enable our people to collaborate more effectively when they are together.

Employee engagement

Maintel Matters is our employee representative forum, made up of elected employees from across the business, representing office locations, home and remote workers, individual functions and the management team.

Maintel Matters is the forum for formal and informal consultation between the Company and employees on issues around employment, benefits, terms and workplace matters, and the team also takes a lead on social activities, workplace fundraising and employee wellbeing.

Meet Leah Goddard

Managed Service Engineer in the network operations centre and employee chair of Maintel Matters

Leah joined Maintel in 2013 as an apprentice on the Institute of Telecommunications Professionals (ITP) "Telecommunications Engineer" programme. This saw Leah gain experience in every team within the operations function, desk-based, lab-based and on-site, as well as being combined with regular periods of residential education with other apprentices from around the UK.

Leah completed her apprenticeship in 2015 and was the runner up in the national awards for "SME Apprentice of the Year" in the same year. Since then Leah has continued to be involved in education, being engaged in the "Technicians Make It Happen" campaign, encouraging young women to consider STEM careers. Leah now works in Maintel's Network Operations Centre as a managed services engineer, and is the current chair of Maintel Matters.

"Maintel Matters gives a voice to all employees to help them share ideas with each other and with management. It provides a platform for all our different offices, and our large homeworking community, and we also take the lead in social events and charity fundraising."

Maintel overview continued

Meet some of our people

Meet Gillian Bailey

Customer Support Director

Gillian joined Maintel in 2006 and now heads up our Operational Services function comprising Managed Services and more than 200 technical implementation and support engineers. Gillian has recently re-structured the team so that both implementation and support specialists are brought together in teams focussed on particular technology or vendor specialisms.

"Changing the structure to one of vendor alignment is a bold move for Maintel but it gives us a real ability to continue to improve the customer experience by providing continuity across project and support activities. It also helps us to develop our people through various learning and development and career path opportunities, something I am really passionate about. It's been an exciting time for us as we opened our new NOC facility in Blackburn in 2018 and I strongly believe that our highly skilled technical team, our best-in-class NOC and our dedicated Managed Services team means we have a structure which is fully aligned to our strategy of driving continued growth in our cloud revenues."

Tim Canga

Front-end Developer

Tim joined Maintel in 2016 as a Graduate Developer, having graduated with a degree in Digital Media from the University of Portsmouth. Based in the Maintel Technology Centre in Fareham, Tim has primarily worked on next generation customer contact channels, as part of the team which designed and developed the Callmedia Digital Engagement Connector. He's now working on various user interfaces across the Maintel product portfolio and is currently developing the next generation management interface for contact centre supervisors and managers.

"Working with such a passionate and innovative team at the Maintel Technology Centre has allowed me to grow not only my skills as a developer but also as a person. I love that my ideas and designs have had a real impact on the product and seeing the result of these is really rewarding. I'm very excited to have started development of the new management interface and the challenges this will bring."

Czarina Sheikh Mathew

Customer Experience Director

Czarina joined Maintel in 2018 to lead the companywide programme to continually improve the experience of our customers at every touchpoint – from prospect, through to order, onto delivery and into service. Czarina has over 25 years' experience in customer service and experience roles, including being head of customer experience at Intrinsic, which Maintel acquired in 2017.

"I've already immersed myself into the role to gain a better understanding of how we can go even further for customers, and nurture our relationships through the delivery of excellent and trusted services."

Nick O'Neil

Principal Engineer

Originally a lead engineer in the Data Implementation team, Nick joined the Company in 2006 and holds the very highly regarded Cisco Certified Internetwork Expert (CCIE) certification. Nick has specialised in advanced routing technologies for more than a decade, including the early precursors to the technologies that eventually led to Software Defined Wide Area Networking, or SD-WAN. Nick recognised early on the benefits that this technology could bring to Maintel's customers, and has been the technical lead in driving the development of Maintel's SD-WAN solution.

"I'm really enjoying realising my passion for networking in working on new and exciting technologies that will bring real value to Maintel and our customers. New technologies such as SD-WAN are rare, and it's been great to be in at the beginning of the journey."

Ash McDonagh

Head of Learning and Development

Ash joined Maintel in 2018 to establish and drive our learning and development strategy, with a strong focus on raising business performance through employee engagement and strengthened employee and leadership capability. With over 20 years' experience and multiple industry recognised awards, Ash has a proven track record of developing talent and succession planning, and implementing large scale people development projects.

"I am a strong believer in people being our biggest asset and I make it my mission to ensure I can facilitate this on a day to day basis. Naturally this motivates me to seek out and partner with like-minded businesses who are willing to invest in their people and are open to new ideas and new ways of thinking. Ultimately this enables me to make a real and unique difference."

Maintel overview continued

Our future

These are exciting and fast moving times for the communications sector with a rapid pace of innovation in technology development and adoption.

We have an enviable client base of both public and private sector clients, which is driving much of our growth in cloud and other next-generation services. Approximately 55% of our cloud growth is coming from that installed base, with the balance from new customer acquisition, and we still have more than 75% of our managed services base to take on the cloud journey. With analyst reports for the UCaaS market typically reporting between 11%[1] and 25%[2] compound annual growth rate ("CAGR") to 2025, there is plenty of market to go after for our flagship ICON services. In January 2019 we launched a mid-market oriented UCaaS service, ICON Now, which will enable us to pursue the 100 to 1,000 seat market much more effectively, while ICON Communicate will remain the flagship enterprise managed service for larger organisations or those with more complex requirements.

Contact centre technology, driven by organisations wishing to differentiate themselves by offering an improved customer experience and by consumers wishing to interact with their suppliers and service providers via an increasing number of digital channels, is also experiencing significant growth, with CAGRs of 25.2%[3] and 25.9%[4] cited in two recent analyst reports. As with unified communications, contact centre operators are steadily migrating their technology to the cloud. Maintel's ICON Contact offer is positioned to support customers in that transition. The market is being further enriched by the use of Artificial Intelligence ("AI") and Machine Learning technologies to improve outcomes for customers – either by ensuring the best possible match of available agents to queuing customers, or by supporting a significantly improved experience using self-service channels, AI is driving a lot of product evaluation and pilot projects.

Our secure networks offer is also positioned to capture three significant business trends: our ICON Connect service is optimised to support customers as they transition not just their communication services but all their business applications to the cloud. ICON Connect SD-WAN is positioned to take advantage of the 40% to 60% CAGRs being talked about by vendors – although as early stage technology, these figures represent growth from a low base, and much of it will be substitutional from traditional WAN technologies. Finally, ICON Secure's cyber security service serves a market currently seeing 10%[5] CAGR and in particular a Managed Security Services CAGR of 14%[6] to 2022.

At Maintel, we seek to have a product portfolio that is at the head of the market, not behind – an aim that is assured by our product and strategy team, led by our Chief technology and strategy officer. Our customers trust us to bring them innovation and new technology that will improve their businesses, make them more competitive and help them to reduce their own costs.

Mergers & acquisitions

Maintel has made a number of significant acquisitions in recent years, bringing scale, capability, customers and talent into our growing organisation. We will continue to use acquisitions to bring us new capabilities and increase the base of customers for our managed services.

1 "2018-2025 UCaaS Report on Global and US Market, Status & Forecast, by Players, Types and Applications", QY Research, August 2018
2 "Global UCaaS Market Forecast 2018-2023", Orion Market Research, March 2018
3 "Cloud-based Contact Centre Market by Solution – Global forecast to 2022", Research & Markets, April 2018
4 "Cloud Based Contact Centre – Global Market Outlook (2017-2023)", Statistics, December 2017
5 "Cybersecurity Market by Solution .... And Region – Global Forecast to 2023", Markets & Markets, September 2018
6 "Global Managed Security Services Market Size, Status & Forecast 2025", QY Reports, May 2018

Investing in Maintel's future

As a pioneering company, we continually invest in ensuring our proposition is relevant and that our people are equipped with the skills they need to deliver today's services. This year we have brought together our cloud and software divisions to form a new software and cloud technology division, based at our new Maintel Technology Centre in Fareham. We will continue to invest in our ICON cloud services, increasing the use of our own intellectual property and software wrap to provide differentiation in the marketplace and to reduce our time to deploy and cost to serve.

Dan Davies

Software & Cloud Technology Director

Dan has been with Maintel for eighteen years and now leads Maintel's ICON Infrastructure Team, which is responsible for the operational delivery, support and development of Maintel's cloud platform, and the Maintel software team, which develops our own Callmedia contact centre product and carries out bespoke software integration projects.

"It's fantastic to be able to apply my grounding in both business and technology to drive forward our cloud and software business. These are key growth areas for Maintel and it's great to be able to provide our customers with a path that's right for them as they transition their communication environments to the cloud."

Graduate programme

2018 saw the launch of a formal graduate intake for Maintel, with a rigorous and highly contested selection process bringing in the next generation of trusted advisors for our customers, and ultimately future leaders for Maintel. We will expand on this programme in 2019.

Josephine Tu

Applications Pre-Sales Apprentice

Josephine joined Maintel in the summer of 2018 as part of the new graduate programme, which brought six graduates into the Group on an 18-month programme which will see them gain experience across the organisation and further develop their skills across multiple disciplines. Having graduated in mathematics from the University of Kent in 2018, Josephine is now working in the applications pre-sales team, particularly focussed on Avaya's mid-market unified communications and contact centre offerings.

"Being someone who loves variety, I'm very lucky to be in a role that allows me to be both technical and social. As clichéd as it may sound, every day is different! It's a very exciting time for me as a new graduate to be in an industry that's constantly evolving. I've learnt so much in such a short space of time and I'm looking forward to continuing developing in my role and see what the future holds at Maintel."

Maintel overview continued

Glossary

Artificial Intelligence (AI)

The sub-set of computer science aimed at the development of computers capable of doing things that are normally done by people – in particular, things associated with people acting intelligently.

Customer Experience (CX)

The practice of using the experiences of customers as a competitive differentiator. Maintel's CX practice is primarily concerned with the design, implementation and support of technology to facilitate customer interactions via the contact centre or digital channels.

Machine Learning (ML)

The use of software to analyse very large data sets and use the analysis to answer questions and make decisions.

Software Defined Wide Area Network (SD-WAN)

The latest generation of wide area networking technology that enables centralised and simple configuration and connection irrespective of the underlying circuit or wireless technology, and a range of business-oriented networking services.

Unified Communications (UC)

Unified Communications is a suite of tools to allow team members to collaborate, including instant messaging (IM), presence, screen and document collaboration and both audio and video conferencing.

Unified Communications as a Service (UCaaS)

The implementation of unified communications tools without the need for an organisation to install any hardware or software on their premises or in their data centres. UCaaS is usually provided on a "pay as you go" basis with minimal up-front costs and the ability to flex the capacity of the service up and down during the term of the agreement.

Business review

New IFRS implementation

Maintel has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments for the financial year ending 31 December 2018.

To reflect the adoption of IFRS 15, 2017 figures have been restated throughout this document. The effect of adopting IFRS 15 primarily impacts on the following areas:

- Technology revenues/margins recognised under contracts with customers, which include both the supply of technology goods and installation services, representing one performance obligation under IFRS 15 result in revenue recognition at a point in time, which is different to the previous treatment whereby the supply of goods and professional services were treated as separate sale arrangements (refer note 2). There is no impact on managed services revenues, mobile revenues or network services revenues.
- The adoption of IFRS 15 has resulted in an increase in 2018 revenue and profit before tax of £2.5m and £0.2m respectively (2017: IFRS 15 adjustments resulted in a reduction of £6.3m and £1.9m respectively). In addition, opening reserves at 1 January 2017 are £1.0m lower than the amount reported in the 2017 financial statements. These amounts are based on the Group applying the retrospective method in transitioning to IFRS 15 (refer note 1).

The adoption of IFRS 15 has not altered total contract values or timing of cash flows.

The impact of IFRS 9 is to reduce the Group's opening reserves at 1 January 2018 and trade receivables by £0.1m. These amounts are based on applying the retrospective method. There has not been a material impact on 2018 reported numbers as a result of adopting IFRS 9.

Results for the year

We have continued to make progress in our transformation to a cloud and managed services business and delivered significant increases in all our key financial metrics.

Group revenues increased by 8% to £136.5m (2017: £126.8m) with adjusted EBITDA of £12.7m representing an increase of 17% (2017: £10.9m). Adjusted profit before tax increased by 16% to £10.8m (2017: £9.3m). Adjusted earnings per share (EPS) increased by 20% to 65.5p (2017: 54.7p).

On an unadjusted basis, profit before tax increased by 40% to £2.2m (2017: £1.6m) and basic EPS by 33% to14.4p (2017: 10.8p). This includes £1.7m of exceptional costs associated with the integration of the Intrinsic acquisition and related restructuring activities (2017: £1.5m relating to the Azzurri acquisition),

	2018 £000	(restated) 2017 £000	Increase
Revenue	**136,459**	126,780	8%
Profit before tax	**2,248**	1,609	40%
Add back intangibles amortisation	**6,479**	5,892	
Exceptional items mainly relating to the acquisition of Intrinsic (2017: Azzurri) and associated restructuring activities	**1,647**	1,454	
Share based remuneration	**392**	296	
Adjusted profit before tax	**10,766**	9,251	16%
Adjusted EBITDA[(a)]	**12,740**	10,913	17%
Basic earnings per share	**14.4p**	10.8p	33%
Diluted	**14.1p**	10.6p	33%
Adjusted earnings per share[(b)]	**65.5p**	54.7p	20%
Diluted	**64.3p**	53.6p	20%

(a) Adjusted EBITDA is EBITDA of £10.7m (2017: £9.2m) less exceptional costs and share based remuneration (note 12)

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

Business review
continued

and intangibles amortisation of £6.5m (2017: £5.9m), the increase in the latter due mainly to the acquired Atos base related intangible assets during 2018 and an additional 7 month charge relating to the Intrinsic acquired intangible assets.

Cash performance

The Group generated net cash flows from operating activities of £8.6m (2017: £4.4m) resulting in a cash conversion[c] of 84% for the full year (2017: 54%). As reported last year, 2017 was negatively impacted by the unwind from strong trading in H2 2016, and also by the success of our ICON service offering, which resulted in both reduced upfront project billing and a need for increased capital investment in additional capacity.

Atos customer base acquisition

On 1 July 2018, the Group announced a strategic partnership with Atos and the acquisition of certain UK customer contracts for a total net consideration of £5.1m. The consideration is payable over a period of four and a half years and will be satisfied using the Group's existing cash resources. Following the acquisition, Maintel has become a new channel partner of Atos.

The Atos customer base has underpinned the growth in our managed service business. The expectation is that this base of customers will increase our project revenues in 2019 and it is on track to be accretive in the first full year of ownership.

Review of operations

The following table shows the performance of the three operating segments of the Group. The 2018 results include a full twelve months' contribution from Intrinsic compared to five months' contribution in 2017. On 1 January 2018, the Intrinsic trading entity was hived up into Maintel Europe Ltd so that for 2018 the UK operations were managed and controlled as one entity.

Revenue analysis

	2018 £000	(restated) 2017 £000	Increase/ (decrease)
Managed services related	**47,418**	41,440	14%
Technology[d]	**42,470**	31,647	34%
Managed services and technology division	**89,888**	73,087	23%
Network services division	**40,946**	46,795	(12)%
Mobile division	**5,625**	6,898	(18)%
Total Maintel Group	**136,459**	126,780	8%

Gross profit for the Group increased to £39.1m (2017: £36.7m) with gross margin of 29% at the same level as 2017. Detailed divisional performance is described further below.

Managed services and technology division

	2018 £000	(restated) 2017 £000	Increase
Division revenue	**89,888**	73,087	23%
Division gross profit	**26,364**	20,995	26%
Gross margin (%)	**29%**	29%	

(c) calculated as operating cash flow (being adjusted EBITDA plus working capital) to adjusted EBITDA
(d) Technology includes revenues from hardware, software, professional services and other sales

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

Revenue in this division increased by 23% to £89.9m with gross profit increasing by 26% to £26.4m (2017: £21.0m). Gross margin was flat year on year at 29%, but as predicted, we saw gross margin increase in H2 2018.

In the year Maintel continued to see pressure on its high margin legacy maintenance business as customers move to newer technology with a higher software support mix. This newer technology and the move to cloud services will have an impact on our organisational model as it increasingly reduces the need for a large field based engineering team over the medium term.

As highlighted previously, both technology and managed service revenues in the period were adversely affected by the customer driven delays in specific projects, in particular a large NHS contract and 2 large contact centre upgrades, one for a major utility and the other for a large business process outsourcing customer.

We continue to be successful on the government procurement frameworks, with further awards of two large NHS contracts in Q4 2018, for implementation in 2019.

While we have seen a lengthening of the sales cycle, particularly with larger organisations across both the public and private sectors, there is currently no evidence of projects being cancelled and the sales pipeline remains healthy.

At 31 December 2018, the managed service base including the acquired Atos base stood at c. £45m, up c.10% on 2017.

Network services division

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

	2018 £000	(restated) 2017 £000	Increase/ (decrease)
Call traffic	**5,567**	6,173	(10)%
Line rental	**9,733**	11,495	(15)%
Data connectivity services	**25,215**	28,726	(12)%
Other	**431**	401	7%
Total division	**40,946**	46,795	(12)%
Division gross profit	**9,836**	12,396	(21)%
Gross margin (%)	**24%**	26%	

Business review
continued

Review of operations continued

Network services revenues decreased by 12% year on year impacted by the full year effect of the previously highlighted loss of two large legacy WAN customers (not on the ICON platform) that had particularly high margins.

Traditional call traffic and line rental revenues decreased 14% to £15.3m (2017: £17.7m), which is a reflection of the overall market decline, although Maintel's rate of decline slowed in H2 2018.

Data connectivity revenues declined by 12% over the previous year, driven by a full year's impact of the loss of the two large WAN customers. Excluding this impact, underlying data revenues grew by 2%, as we started to see a positive impact of new contract wins coming through.

We have a significant order back log on data, as customer driven delays on the implementation of two new WANs for a national retailer and national health company will now be delivered during 2019.

Our revenues from cloud customers in the year are £20.7m (15% of total Group revenues) and accelerated in H2 2018 with an increase of 68% on H1 2018. The growth of our ICON cloud services, was underpinned by ICON Communicate, our Unified Communications service, which delivered growth of c. 38% in contracted seats over the previous year. We continue to see the movement of mission critical services into ICON Communicate – from large (multiple thousand employees) hospital trusts to contact centres for financial services institutions. Our sales pipeline for both Unified Communications and Contact Centre continues to be dominated by cloud-based services as the market moves to that delivery model.

We have also seen continued growth of ICON Secure, our Managed Security-as-a-Service offer – with the number of customers on the platform doubling over the previous year.

As highlighted previously, we have set up a new Technology Centre in Fareham bringing together our cloud and software engineering teams to better foster and accelerate our growth as we continue to invest in all aspects of the ICON platform. Product and service enhancements are being added as well as the capacity expansion required to deliver the growth. We launched a managed SD-WAN service late in the year to position us for the growth in that technology, and have further enhanced our PCI secure payment capability.

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.

	2018 £000	(restated) 2017 £000	Decrease
Revenue	**5,625**	6,898	(18)%
Gross profit	**2,918**	3,281	(11)%
Gross margin (%)	**52%**	48%	
Number of customers	**1,233**	1,516	(19)%
Number of connections	**31,935**	42,108	(24)%

The strategic review of our mobile business in 2016, and the action taken to reduce our exposure to mobile, is now complete. We are now focused on the mid-market, and therefore better aligned with the rest of our product propositions. Following this process, mobile revenues decreased by 18% versus the previous year to £5.6m (2017: £6.9m) with the customer base reducing by 19%. This reduction has stabilised when compared to H1 2018, and we expect the full impact to have run through in 2019.

Gross margin increased to 52% (2017: 48%) as the focus has moved to mid-market customers who require a managed service proposition.

O2 remains our largest network partner with 92% of connections.

The introduction of new sales resource has led to the customer sales pipeline steadily growing across both brand new customers and the existing Group customer base, through cross-selling opportunities.

Other operating income

Other operating income of £476,000 (2017: £155,000) includes monies associated with the recovery of an R&D tax credit of £320,000 (2017: £Nil) and a full year rental income from the sub-letting of a part of the Group's London premises of £155,000 (2017: £155,000). The sub-lease runs until November 2020.

Total administrative expenses for the Group increased by 3% to £27.6m (2017: £26.7m) driven in part by the inclusion of twelve months of Intrinsic (2017: five months) and some additional employees recruited as a result of the Atos customer base acquisition. Total administrative expenses as a percentage of total revenue have reduced to 20% from 21% in 2017.

We reported in our interim results that, as a result of the integration of Intrinsic and an ongoing review of operational efficiencies, £2.4m of annualised savings were delivered in H1 2018 from the Group's total overhead base, the full run rate impact of which has come through in H2 2018.

The Group's headcount as at 31 December 2018 was 624 (31 December 2017: 670), reflecting a reduction of 6% as a result of the Group's ongoing review of its operational structure.

Facility costs in 2018 reduced by £0.7m resulting from the changes made to the Group's property estate in 2017 and 2018.

Costs relating to accounting for share options increased to £0.4m (2017: £0.3m).

The level of the Group's administrative expenses will continue to be tightly controlled in 2019 and we expect to deliver further cost savings in 2019 as our operational model evolves.

Administrative expenses

Administrative expenses[e]	2018 £000	(restated) 2017 £000	Increase
Total sales expenses	**14,380**	14,149	2%
Total other administrative expenses	**13,185**	12,528	5%
Total administrative expenses	**27,565**	26,677	3%

(e) Excluding intangibles amortisation, exceptional expenses and share based remuneration

Business review
continued

Review of operations continued

Exceptional costs

A breakdown of the exceptional costs of £1.6m (2017: £1.5m) shown in the income statement is provided in note 13. The main elements are staff related restructuring costs associated with the integration of the Intrinsic business and the ongoing review of the Group's operating cost base (£1.1m) and the creation of an onerous property lease provision relating to the Haydock office premises (£0.2m).

Intangibles amortisation

The intangibles amortisation charge increased in the year due to a full year's charge in respect of Intrinsic compared to 5 months in 2017 and a 6 months' charge relating to the Atos customer base acquired. Impairment and amortisation charges are discussed further below.

Foreign exchange

The Group's reporting currency is Sterling; however, it trades in other currencies, notably the Euro, and has assets and liabilities in those currencies. The Euro rate moved from €1.13 = £1 at 31 December 2017 to €1.11 = £1 at 31 December 2018 and the US Dollar rate moved from $1.36 = £1 at 31 December 2017 to $1.28 = £1 at 31 December 2018. The effect of this and other movements in the period was a net loss to the income statement of £10,000 (2017: £149,000 gain), which is included in other administrative expenses.

The exchange difference arising on the retranslation at the reporting date of the equity of the Group's Irish subsidiary, whose functional currency is the Euro, is recorded in the translation reserve as a separate component of equity, being a charge of £Nil in the period (2017: £9,000).

Interest

The Group recorded a net interest charge of £1.3m in the year (2017: £0.9m), an increase of £0.4m due to a combination of interest rate increases during the year; impact of borrowings taken on to fund the acquisition of Intrinsic in August 2017; and £0.1m of interest on the deferred consideration relating to the customer base acquisition from Atos in July 2018.

Taxation

The consolidated statement of comprehensive income shows a tax charge of £0.2m (2017: £0.1m) on a profit before tax of £2.2m (2017: £1.6m) reflecting a tax rate of 9%, for the reasons described below.

Each of the Group companies is taxed at 19% (2017: 19.25%) with the exception of Maintel International Limited, which is taxed at 12.5% (2017: 12.5%). Certain expenses that are disallowable for tax raise the underlying effective rate above this.

The tax charge in the period benefitted from a deferred tax credit of £0.5m, reflecting an increase in the deferred tax asset based on the directors' assessment that more tax losses, arising originally from the Datapoint acquisition, are likely to be useable in the future. This was offset by a deferred tax charge of £0.3m associated with an intangible asset relating to software licences.

This is described further in note 22.

Dividends and adjusted earnings per share

A final dividend for 2017 of 19.1p per share (£2.7m in total) was paid on 11 May 2018. An interim dividend for 2018 of 15.0p (£2.1m) was paid on 4 October 2018. The board is pleased to confirm an increase in the full year dividend of 2% for the financial year ending 31 December 2018, resulting in a final dividend of 19.5p per share being proposed. This would take the total dividend payment for 2018 to 34.5p.

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 2018.

Consolidated statement of financial position

Net assets decreased by £2.5m in the year to £22.0m at 31 December 2018 (31 December 2017: £24.5m) with the key movements explained below.

Intangible assets valued at £69.4m, increased by £1.9m, driven by intangibles arising on the acquisition of the customer base from Atos (see note 14) and capitalised development costs associated with the Group's contact centre software, Callmedia, offset by the amortisation charge in the year of £6.5m (2017: £5.9m).

The net book value of property, plant and equipment increased by £0.5m to £2.0m (2017: £1.5m) primarily due to continued investment in our ICON platform and general IT infrastructure amounting to £1.2m, offset by the depreciation charge of £0.7m.

Inventories are valued at £8.3m, a decrease of £2.3m in the year, mainly as a result of a reduction in the value of stock held for resale of £2.1m. This was due to the timing of customer deliveries, with some large projects at year-end 2017 not being replicated at year-end 2018. Maintenance service stock reduced by £0.2m due mainly to the results of regular revaluation.

The asset held for sale related to the freehold property in Burnley, which was sold in 2018 for the fair value carried at 31 December 2017 of £1.5m (see note 18).

Trade receivables increased by £1.4m in the year to £20.4m. The increase 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 amounted to £13.0m (2017: £14.0m). The decrease of £1m was mostly due to : (a) lower level of deferred costs (£1.1m)driven in particular by the unwinding of one large order; (b) decrease in prepaid costs relating to hardware funds from the mobile business (£0.5m); both of which were partly offset by a higher level of accrued income (£0.5m).

Corporation tax of £0.8m (2017: £0.8m) reflects the estimated liability associated with the profits derived from FY 2018 and FY 2017 trading activities offset by the utilisation of historical tax losses and unused capital allowances. Due to the hive up of Datapoint's UK businesses into Maintel Europe in Q4 2016, the Group is currently accounting for relief of the historic Datapoint losses on a streamed basis, for those open tax periods of assessment, against the profits of the trade that was transferred from the previous Datapoint UK businesses.

Trade payables increased by £1.3m in the year to £14.8m (2017: £13.5m) with a number of different supplier and delivery timing factors affecting the balance.

Other tax and social security liability have increased by £0.4m to £3.9m (2017: £3.5m), due to a higher VAT liability because of increased Q4 customer invoicing in 2018 compared to 2017.

Accruals amounted to £7.5m (2017: £6.7m), the £0.8m increase due to a combination of £0.5m relating to a higher level of accrued costs associated with several large projects in progress at 2018 year-end, and others £0.3m.

Other payables are £4.0m compared to £3.4m in 2017, an increase of £0.6m, primarily due to a set-up of an onerous lease provision of £0.2m, a reduced level of hardware funds and cash advances of £0.1m, linked to the mobile business, and others £0.3m.

Deferred managed service income is £18.5m (2017: £19.5m). Excluding the incremental effect associated with the acquired customer base of £1.6m, the underlying movement is a decrease of £2.6m. This was in the main due to invoice timing differences and the effect of some lower value renewals due to technology refreshes.

Other deferred income amounted to £8.2m, a decrease of £3.9m, primarily due to the completion of two large projects which resulted in revenue being recognised and which were deferred under IFRS 15 at year-end 2017.

The deferred consideration of £0.6m relates to the current element that is due in the next 12 months arising from the customer base acquisition from Atos (see note 14).

Non-current other payables are £4.9m (2017: £1.5m), an increase of £3.4m due to the deferred consideration of £3.8m relating to the acquisition of the customer base from Atos (see note 14), offset by a decrease in intangible licences and dilapidation provisions of £0.4m.

Business review
continued

Review of operations continued

The deferred tax liability increased by £1.0m to £3.3m (2017: £2.3m), predominantly due to an additional deferred tax liability of £1.3m associated with the intangibles acquired from the Atos acquisition, offset by the net effect of other movements (£0.3m).

Intangible assets

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

The intangible assets represented by purchased customer contracts and relationships, brand value, product platforms and software were carried at £29.2m at the period end (2017: £27.8m). The intangible assets are subject to an average amortisation charge of 18% of cost per annum in respect of the managed service and technology division, 13% per annum in respect of the network services division and 16% per annum in respect of the mobile customer relationships, with £6.5m being amortised in 2018 (2017: £5.9m), the increase being attributable to a full 12 months' charge (2017: 5 months) relating to the Intrinsic intangibles acquired in August 2017 and 6 months' charge relating to the Atos intangibles acquired in July 2018.

Goodwill of £40.2m (2017: £39.7m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. The increase of £0.5m is because of the Atos customer base acquisition. No impairment has been charged to the consolidated statement of comprehensive income in 2018 (2017: £Nil).

Property

We reported at the end of 2017 significant progress in management's ongoing review and consolidation of its property locations, leading to the Weybridge lease being assigned to a new tenant with Maintel sub-letting a much-reduced space and the closure of the Thatcham and Manchester offices resulting in annualised savings of £0.7m. As of February 2019, we have now also exited from the Weybridge lease.

A review was also undertaken of the Burnley freehold property in Q4 2017 resulting in a decision to market the property, consolidate the warehousing requirements in Haydock and to lease more modern alternative office premises. The sale of the freehold property was successfully concluded for £1.5m in February 2018, and a new lease was signed in July 2018 for office premises located in Blackburn with minimal net incremental ongoing operating costs to the Group.

Following the sub lease of the Haydock office premises to a new tenant in Q4 2018, which will deliver annualised savings of £0.2m, the Group now operates from 4 office locations being London, Fareham, Aldridge and Blackburn in addition to our warehouse facilities located in Haydock.

Cash flow

As at 31 December 2018 the Group had net debt of £25.5m, excluding issue costs of debt (31 December 2017: £27.7m), equating to a net debt: adjusted EBITDA ratio of 2.0x (2017: 2.5x).

An explanation of the £2.2m reduction in net debt is provided below.

	2018 £000	(restated) 2017 £000
Cash generated from operating activities before acquisition costs	**9,135**	4,900
Taxation paid	**(442)**	(211)
Capital expenditure less proceeds of sale	**(265)**	(1,482)
Interest paid	**(1,161)**	(986)
Free cash flow	**7,267**	2,221
Dividends paid	**(4,841)**	(4,557)
Acquisition (net of cash acquired)	**(181)**	(4,895)
Acquisition costs paid	**(44)**	(273)
Proceeds from borrowings	**-**	9,000
Repayments of borrowings	**(9,500)**	(9,000)
Issue costs of debt	**-**	(60)
Decrease in cash and cash equivalents	**(7,299)**	(7,564)
Cash and cash equivalents at start of period	**3,311**	10,884
Exchange differences	**-**	(9)
Cash and cash equivalents at end of period	**(3,988)**	3,311
Bank borrowings	**(21,500)**	(31,000)
Net debt excluding issue costs of debt	**(25,488)**	(27,689)
Adjusted EBITDA	**12,740**	10,913

The Group generated £9.1m (2017: £4.9m) of cash from operating activities (excluding acquisition costs of £44,000 (2017: £273,000) and as disclosed in the Consolidated statement of cash flows operating cash flow before changes in working capital of £11.1m (2017: £9.6m).

Cash conversion in 2018 remained strong at 84%[(c)] (2017: 54%) continuing the normalisation of cash conversion delivered in H2 2017. As reported last year, the full year cash conversion in 2017 was suppressed because of cash timing benefits from a strong trading performance in Q4 2016 combined with strong growth in our ICON cloud product offering, leading to a reduction in upfront project billing, which unwound in H1 2017.

The Group incurred exceptional costs of £1.6m during 2018 (2017: £1.5m), primarily covering restructuring and redundancy costs associated with the ongoing review of the Group's operating cost base and the integration of Intrinsic.

Capital expenditure of £0.3m (net of £1.5m of proceeds received from disposal of the Freehold property) comprised £1.8m ongoing investment in the ICON platform and IT infrastructure and continued development of Callmedia, the Group's contact centre product.

(c) calculated as operating cash flow (being adjusted EBITDA plus working capital) to adjusted EBITDA

Business review
continued

Review of operations continued

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

The net finance cost increased by £0.2m to £1.2m, due to a combination of an increase in borrowing rates, impact of a full year weighting of the additional debt taken on to fund the Intrinsic acquisition in August 2017 and £0.1m relating to the deferred consideration associated with the Atos base acquisition.

In managing the Group's funding costs, we have used surplus cash and overdraft to reduce our utilised facility by £9.5m in the period, leaving a net cash and cash equivalents overdraft balance of £4.0m at year-end (2017: cash balance of £3.3m).

Including the payment of dividends in 2018, amounting to £4.8m, and acquisition costs of £0.2m, the net effect when combined with a free cash flow of £7.3m is a decrease in the net debt position of £2.2m to £25.5m.

Further details of the Group's revolving credit and overdraft facilities are given in note 23.

IFRS 16 – Leases

IFRS 16 is required to be adopted for all accounting periods beginning on or after 1 January 2019. During Q4 2018, the Group carried out a detailed assessment of the impact that the adoption of IFRS 16 may have on the Group's financial statements. As an indication of the effect of IFRS 16 for the current reporting period, the Group would recognise a liability of £4.8m and a right of use asset of £4.8m. The impact on the consolidated statement of comprehensive income for 2018 will be that £0.9m which would have been shown as operating expense will now be shown as £0.8m of depreciation and £0.2m of interest.

A detailed explanation of the impact of IFRS 16 on the Group's accounting policies is provided in note 2.

Risk management

The board has overall responsibility for setting the risk appetite for the business and for ensuring that the Group's ongoing risk profile aligns with this. The board is also responsible for identifying the business risks and uncertainties faced by the Group that could have a material adverse effect on the business, most of which are beyond its control, and for determining the appropriate course of action to manage these. It reviews a dynamic risk report at its monthly board meetings, the process behind which is monitored by the Audit and Risk committee. The most significant current risks and uncertainties are described in the table below; the extent of the impact of each would naturally depend on the precise nature and duration of the event. This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which we currently believe are immaterial, that could have an adverse effect on the business.

Nature of risk	How do we mitigate the risk?	Trend
Disruptive technology changes the landscape of the market and the Group may not keep pace with product and service innovation.	Maintel has a dedicated product function to ensure that the Group's product and service portfolio remains competitive. We have also recently re-structured to ensure focus on accelerating developments, including those of the ICON platform.	↔
A catastrophic event – for example a power outage or pandemic - means that the Group is unable to service its customers.	All employees are able to work remotely and the Group's operational and administrative servers are located and managed such that damage from an outage is minimised. A business recovery plan is in place which is reviewed regularly and enhanced from the results of testing.	↔
Cyber-attacks on Maintel, customer or supplier systems rendering them unusable temporarily or permanently.	The Group has a dedicated security team, a specialist Security Operations Centre (SOC) and has invested significantly in training, systems and tools to ensure Maintel and its customer systems are secured. Customer networks and data are completely segregated from the Group's and data and systems are replicated in more than one location. Maintel holds several security accreditations including Cyber Essentials Plus, ISO 27001 and PCI DSS, all of which entail extensive external auditing of the Group's systems and processes. Maintel is also covered by cyber threat insurance.	↔
The Group has inherited a range of systems and processes from recent acquisitions, some of which are antiquated and lacking in integration. Inefficiencies may cause loss of profits through errors or the additional resource required to manage the systems.	A new integrated system is being implemented, with a live date of April 2019. Initiation of this system in itself presents a risk, however considerable testing is being undertaken before it goes live.	↔
Loss of key supplier through its business failure or termination of relationship with Maintel	The Group has a multi-vendor strategy to reduce this risk and has defined product managers who work closely with each supplier to maintain constructive relationships and promptly identify potential issues, formalised by monthly internal review meetings. The risk is deemed to have reduced during the year following Avaya's exit from Chapter 11.	↓

↔ Risk unchanged from last year

↓ Risk reduced from last year

The Group's approach to financial risk management is further explained in note 24 to the financial statements.

Business review
continued

Brexit

The impact of Brexit is one that we consider regularly as political discussions develop, with its timing and nature still uncertain. The issues that could impact Maintel are not regarded as significant risks to the business, the directors' current views being as follows:

Sales to the EU

The Group made a total of £4.7m of sales to EU countries in 2018; £1.2m of that derived from our Irish-registered subsidiary, Maintel International Limited ("MIL"), the remaining £3.5m attributable to the UK registered Maintel Europe Limited ("MEL"), which sold to 15 EU countries. It is currently anticipated that it would be beneficial to register for VAT in some of those latter countries to expedite input VAT recovery, however the quantum of that VAT is low.

Customs

Our principal suppliers have confirmed that they do not envisage any significant price changes resulting from a customs agreement between the EU and the UK, due to the sourcing of their products from outside the EU. For the same reason, they do not anticipate any supply chain interruption. Of its EU sales, only a relatively small element consists of equipment that might be subject to customs implications.

Employees

The Group has 7 EU nationals employed by MEL. The current expectation is that these employees will be able to continue to live and work in the UK post-Brexit.

Exchange rate

The Brexit process itself may result in volatility in the value of sterling. This would have an effect on:

- The purchase price of the Group's purchases. It is envisaged that these price movements would be passed on to customers and that competitors would do likewise.
- MEL's invoicing to its EU customers is predominantly in Euros, so that exchange rate movements will impact the sterling value recognised by the Group.
- MIL's functional currency is the Euro. Movements in the Sterling/Euro exchange rate will affect the conversion of both MIL's profits (€0.3m 2018) and balance sheet (£Nil net assets at 31 December 2018).

Outlook

We continue to invest in our ICON services and infrastructure, adding both capacity and capability to our platform and improving our customer offering. One example is the post-period end launch of our new mid-market, ICON Now unified communications proposition, which will extend our market reach into the lower end of the mid-market. As a result, we expect the acceleration of growth in this area to continue through the current financial year.

In addition, we will continue to invest in our people, wider product offering and IT platforms, future-proofing our business and positioning ourselves to take advantage of the changing marketplace.

The Board remains confident in delivering growth in both revenue and EBITDA for the current financial year, in line with current expectations, underpinned by the full year impact of the acquired Atos customer base and continued growth in the ICON cloud services, as well as the implementation of margin enhancing initiatives across the business.

Our dividend policy remains unchanged, with a commitment to pay-out at least 40% of adjusted net income per annum, however our aim is that the dividend will remain progressive in absolute terms.

The Company announced on 4 March 2019 that Mark Townsend, Chief financial officer, informed the Board of his intention to leave the Company for personal reasons. The Board is taking steps to identify a new Chief financial officer and will update the market when appropriate. The Board would like to thank Mark for his contribution and wish him well for the future.

On behalf of the board

Eddie Buxton
Chief Executive Officer

15 March 2019

Corporate governance

Board of directors

John Booth

Non-executive chairman

Appointed: 7 June 1996

Committee membership:
N (chairman) A R

Previous experience:
John's career has been spent in equity investment and broking where he has held a number of senior positions including Head of Equities at Bankers Trust and co-founder and Executive Chairman of the Link Group, acquired by ICAP Plc in 2008. He has extensive venture capital experience and holds a number of non-executive directorships in investment management.

External appointments
John is Chairman of the London Theatre Company, Natilik Ltd and Rinkit Ltd, a non-executive director of several private companies in investment management and a consultant to Herald Venture Partners. He is also Chairman of The Prince's Trust and a trustee of The Tate Gallery and a number of other charities.

Annette Nabavi

Senior independent non-executive director

Appointed: 30 June 2014

Committee membership:
R (chairman) A N

Previous experience:
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 focussed on strategy and marketing in the TMT sector.

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

Nicholas Taylor

Independent non-executive director

Appointed: 1 January 2006

Committee membership:
A (chairman) N R

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

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

Eddie Buxton

Chief Executive Officer

Appointed: 2 February 2009

Committee membership:
none

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

External appointments
None

Committees:
- N Nominations
- A Audit and Risk
- R Remuneration

Angus McCaffery

Director

Appointed: 7 June 1996

Committee membership:
none

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 2014. He now focuses on finding larger organic and inorganic opportunities as well as maintaining relationships with our larger partners and the overall development of Maintel.

External appointments:
No relevant external appointments.

Kevin Stevens

Chief Operating Officer

Appointed: 1 January 2014

Committee membership:
none

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

External appointments:
No relevant external appointments.

Stuart Legg

Group Sales and Marketing Director

Appointed: 7 April 2016

Committee membership:
none

Previous experience:
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.

External appointments:
No relevant external appointments.

Mark Townsend CA

Chief Financial Officer

Appointed: 7 April 2016

Committee membership:
none

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

External appointments:
No relevant external appointments.

Report on corporate governance

Chairman's introduction

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

We believe that a sound and well understood governance structure is essential in achieving that objective and to maintain the integrity of the Group in all its actions, to enhance performance and to impact positively on our shareholders, staff, customers, suppliers and other stakeholders.

After due consideration, Maintel has adopted the QCA Corporate Governance Code ("the Code") as the benchmark for measuring our adherence to good governance principles. These principles provide us with a clear framework for assessing our performance as a board and as a company, and the report below shows how we apply the Code's ten guiding principles in practice. More detailed descriptions of the Group's corporate governance processes are given later in this report and in the report of the directors.

The ten Principles of the Code and the Company's application of them

1. Establish a strategy and business model which promote long-term value for shareholders

The Group's strategy and business model are detailed in the Maintel Overview section, in particular on pages 6-16.

The principal risks and uncertainties affecting the Group are shown on page 27.

2. Seek to understand and meet shareholder needs and expectations

Twice-yearly meetings are held with larger shareholders following results announcements, with a developing programme of contact and meetings with existing and prospective shareholders outside of the reporting seasons. The Company's broker also provides formal (after the twice-yearly meetings) and informal ad hoc feedback on shareholder and prospective shareholder views.

The company's AGM provides the opportunity for the exchange of views with private as well as institutional shareholders.

Trading updates and other announcements are made to the market via the Regulatory News Service as required.

The Group's broker also produces research following the two results announcements and following any other announceable events.

The Company's website includes contact details for the Chairman, Chief executive and Chief financial officer and the Senior independent director makes herself available to institutional investors should they require an alternative communications route to the Group.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The directors consider the following to be the key stakeholders in the business and the following explains how the Company interacts with each to achieve mutual success.

Shareholders
As noted in Principle 2 above, the directors maintain contact with key shareholders with a view to understanding their needs and maximising their long-term returns.

Employees
Details of methods of engagement are given on page 49. The role and responsibilities of the Chief people officer have also been elevated, recognising the need to enhance the attractiveness of the Group to existing and prospective employees.

Customers
The Group's product and service offerings are described in the Maintel Overview section on pages 6 to 16, and these are sold by both a new business sales team and account managers who service existing customers. In addition to other contact points such as project managers for installations and customer service teams, communication with customers and prospects also occurs via social media feeds, blogs, events, conferences and exhibitions. Particularly key customers and partners have an allocated executive sponsor.

Suppliers
Contacts are maintained at senior level with all the Group's main suppliers. The Group also employs product managers to monitor the changing products and services of the suppliers and manage relationships with them.

Other
The Group is cognisant of its social responsibilities and reports on its environmental actions on page 50.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The board annually reassesses its risk appetite across eight areas of operations:

- Financial
- Health & Safety
- Environmental
- IT security
- Legal and regulatory compliance
- Strategic suppliers and partners
- Sales and competition
- HR/personnel

This defines the risk profile the business is prepared to apply to achieve medium- to long-term success and the board's monthly review of the Group's risk register is undertaken against this risk appetite.

The Audit and Risk committee is responsible for the monitoring of risk, including reviewing the effectiveness of the risk management process annually; its report at page 39 further describes its responsibilities and actions taken during 2018.

The principal risks affecting the Group are described on page 27.

5. Maintain the board as a well-functioning, balanced team led by the chair

The structure of the board of directors is described under that heading below.

A review by the Nomination committee in February 2019 of the board's effectiveness concluded that an established, experienced and balanced board is in place, with three non-executives and five executives. It also concluded that a third party review of board effectiveness was not required at this time, the Remuneration committee setting each executive director personal and Group profitability targets annually and measuring performance against both these and effectiveness generally.

The annual review of the schedule of matters reserved for the board was also undertaken by the board, in January 2019.

The directors are agreed that, as described in the board of directors' section below, the non-executive directors are independent, as is necessary to challenge the executive directors, and that they commit sufficient time to the fulfilment of their duties as directors of the Company.

Updated terms of reference of the Remuneration, Nomination and Audit and Risk Committees, together with the process for obtaining independent advice, were agreed at the January 2019 board meeting; key elements of the terms are shown below. The directors believe that, given the external roles they hold and have held, together with the knowledge and insight gained as directors of Maintel, the members of each committee have the appropriate experience to fulfil their committee responsibilities.

The directors' attendance record at board and committee meetings during 2018 is shown below.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The directors' biographies on pages 32 and 33 show the depth of skills and experience of each director, which the board believes represents an appropriate balance.

Report on corporate governance continued

The Group has experienced dramatic change in recent years, primarily technological and size-related, particularly through the acquisition of Azzurri Communications. The board has critically assessed its structure and capability, together with the Group's operational structure at each acquisition and made changes accordingly.

The board believes that its members are able to keep abreast of technological change with attendance at industry events and regular interaction with suppliers, customers and counterparts in other TMT companies, supported by a management team with frontline technical capabilities. Non-technical expertise is maintained and developed through attendance at financial, legal and other corporate events and regular liaison with advisers, together with input from senior internal sources including the Company Secretary.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Board effectiveness is evaluated in several ways. The Nomination committee meets annually to review the structure, size, composition and effectiveness of the board, and is also responsible for making recommendations on changes to board membership. The Chairman and CEO also discuss the performance of the board as a whole, while the Remuneration committee reviews the performance of the executive directors individually against annual and triennial performance objectives defined for the purposes of bonus eligibility and option exercise criteria; the latter are described in the Remuneration committee report on pages 43 and 44. Bonus eligibility is dependent on Group financial performance combined with individual role-specific objectives which are tailored to Group requirements for that year.

The board does not consider that any executive director is indispensable, with sound second tier operational management capable of assuming operational duties in the absence of a board member and succession planning at all levels being a key component of our People Strategy.

Directors retire, in any event, in accordance with the Company's articles of association on a three-year rotational basis and in accordance with corporate governance recommendations if these require a shorter period, their reappointment being subject to shareholder approval.

The directors consider that change for the sake of it is not productive, but the regular review of board effectiveness will highlight when change is required.

8. Promote a corporate culture that is based on ethical values and behaviours

The Group promotes a defined set of Maintel Values, framing the culture of the Group in a range of areas. These values are designed to be applied to all aspects of the Group's operations, are enshrined in the Company Handbook and separately on the Group intranet, and have also been replicated on page 10.

Key elements of the values include integrity, creativity and agility in customer delivery, and personal development in an enjoyable work environment, which the board considers particularly important to the ongoing profitability and growth of the Group by way of attracting and retaining satisfied customers and employees. The values also allow other stakeholders to assess the quality and aspirations of the company with which they are dealing.

As required by law, the Group adheres to Anti-bribery and Anti-slavery legislation; it is also ISO14001-cerfified and reports on its environmental policies on page 50.

The board recognises the importance of establishing and maintaining a consistent, positive corporate culture, aligned to the Maintel Values and with a growing recognition of what makes a "Maintel person" following the Company's recent acquisitions. This culture is also promoted informally through actions and direction from the board downwards and in the implementation of the Group's People Strategy throughout 2018 and beyond.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The board has overall responsibility for all aspects of the business. The Chairman is responsible for overseeing the running of the board, ensuring that no individual or group dominates the board's decision-making, and that the non-executive directors are properly briefed on all operational and financial matters. The Chairman has overall responsibility for corporate governance.

The board is supported by a Remuneration committee, a Nomination committee and an Audit and Risk committee, whose terms of reference are reviewed annually. Further information on the roles of these committees, together with reports of their activities during the year, are included on pages 39 to 40 below.

Other structures and processes underpinning the governance of the Group and its compliance with the Code are described throughout this report. Policies and procedures directly relating to corporate governance include:

- Schedule of Matters reserved for the board (Principle 5)
- Terms of Reference of Remuneration committee, Nomination committee and Audit and Risk committee (Principle 5)
- Risk appetite (Principle 4)
- Maintel Values (Principle 8)
- Anti-bribery policy (Principle 8)
- Anti-slavery policy (Principle 8)
- ISO14001:2004 (Principle 8), ISO9001, ISO20000, ISO18001and ISO27001
- Shareholder communications
- Corporate Governance Review paper produced annually

All governance papers referred to in this document are subject to annual review.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The descriptions of the Group's application of Principles 2 and 3 on pages 34 and 35 explain the primary modes of communication with its shareholders and other stakeholders and the Strategic Report provides details of the Group's performance.

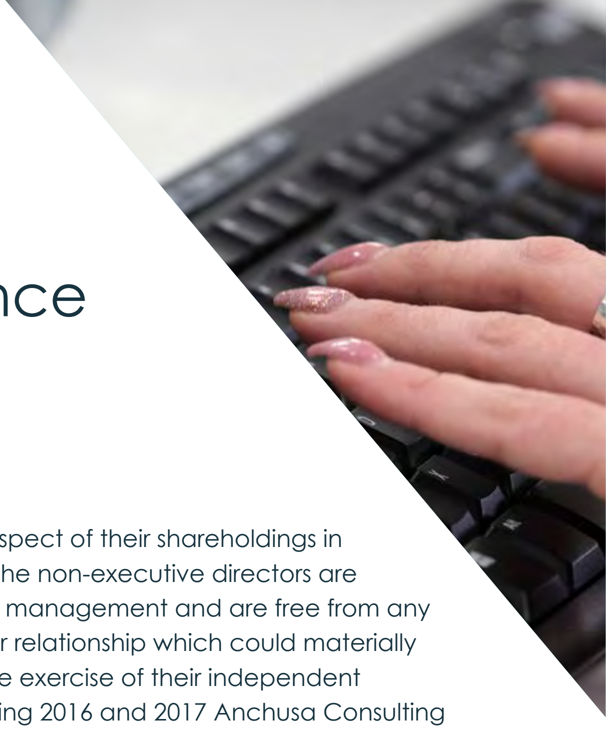
In 2018, the board decided to increase the opportunity for existing and prospective shareholders to get to know the Company, and instituted a programme of meetings outside the standard reporting rounds. The first meetings were held in Q2 2018 to update interested parties, including a range of investors, on the Group's product development, and to increase understanding of the Group's future strategy. Further such meetings are planned.

All corporate announcements are shown on the Company website, maintel.co.uk, as are all Annual Reports and Interim Statements.

Governance during the last year

Following the acquisitions of Azzurri and Intrinsic in May 2016 and August 2017 respectively, which added significantly to the size and diversity of our workforce as well as its geographic spread, a substantial shift was required in the way the company is managed to align all employees to a common purpose, behaviour and goals.

This has been addressed primarily through organisational restructuring and a significantly enhanced People Strategy that encompasses the development and embedding of Maintel Values (described in more detail on page 10), together with the publishing of an HR roadmap designed to harmonise terms of employment, career opportunities, management development, training and culture across the Group.



Report on corporate governance continued

This process is ongoing and in the last twelve months has seen, amongst others, the following governance developments:

- the production of the HR people strategy, combined with analysis of the first gender pay gap report published in March 2018 has resulted in initiatives to attempt to home grow talent, including under-represented female talent at grass roots level, by way of establishing a technical training offering through our apprenticeships portfolio, vendor accreditations, technical certifications and commencing a graduate training scheme in the sales arena;
- the directors are committed to nurturing an open and communicative culture which encourages employee participation in the exchange of ideas, information and suggestions. The culture is also conveyed throughout the Group by way of regular employee newsletters and an employee forum, together with interactive presentations by the executive directors to employees across the Group's five offices;
- the Maintel culture and Values are reinforced informally through regular meetings between the executive directors and the senior management team; and
- in order to align senior management interest with that of the Group and to encourage key employee retention, the board extended the use of the Group's Long Term Incentive Plan to key members of senior management in April 2018.

The board will continue to develop its governance processes in the coming year.

Board of directors

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

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

The directors acknowledge that the shareholdings, length of service and consultancy work undertaken by two non-executive directors might be seen to compromise their independence, as suggested by the report prepared by ISS in advance of the 2018 AGM. The board has considered the issue of independence at length and has taken soundings from institutional investors and concluded that all three non-executives act independently and are demonstrably able to challenge the rest of the board, having extensive experience in such positions, as shown by their external appointments described on page 32. Further, the executive directors consider that the longevity of tenure of two directors gives them valuable insight to the business, that the non-executive directors' shareholdings align their interests with those of other shareholders and that consultancy services provided from time to time by two non-executive directors have been cost-effective expedients during corporate actions utilising the directors' skillsets which would otherwise have been outsourced.

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

The directors' biographies on pages 32 and 33 demonstrate the experience they bring to the Group.

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

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

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

The directors are required by the Company's articles to retire on a three-year rotational basis, and to stand for reappointment by shareholders at the annual general meeting. Although not required to retire this year in accordance with the articles, corporate governance guidance recommends that non-executive directors with more than 9 years' service are re-elected annually, and Mr Booth and Mr Taylor, having been directors since 1996 and 2006 respectively, offer themselves for re-election. The board's view is that both directors bring a valuable external contribution to the board, remain independent and effectively challenge as well as support the executive directors.

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

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

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

Audit and Risk committee

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

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

The remit of the committee includes:

- considering the continued appointment of the external auditors, and their fees, terms of engagement and independence, including the appointment of the auditors to undertake non-audit work;
- liaising with the external auditors in relation to the nature and scope of the audit;
- reviewing the form and content of the financial statements and any other financial announcements issued by the Group, including consideration of significant issues, judgements, policies and disclosures;

Report on corporate governance continued

reviewing any comments and recommendations received from the external auditors and considering any other matters which might have a financial impact on the Group;

- reviewing the Group's risk management reporting processes that identify, report and monitor corporate level risks and considering annually the requirement for an internal audit function; and
- reviewing the Group's statements on internal control systems and risk management processes.

The Audit and Risk committee convened six times during 2018. Attendees at committee meetings held in 2018 variously included the Chief financial officer, Chief executive officer, Group financial controller and representatives of the external auditors. All of these attended at the invitation of the chairman of the committee to facilitate the conduct of the meetings. In 2018, it also liaised informally with the executive directors in relation to published financial information including the adoption of IFRS15 and other audit-related matters. Mr Taylor also communicated separately with the external auditors during the year in the absence of executive management.

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

- the external auditors' year-end report for 2017, their observations on the internal financial controls arising from the annual audit, the review of the Group's 2017 results and the disclosures in the 2017 annual report;
- the announcement of the half-year results;
- the external audit plan for the 2018 financial statements, which included a review of the audit objectives, scope, timetable and deliverables;
- the re-appointment of BDO LLP as external auditors in respect of the 2018 results, their independence and objectivity and their fees;
- regularly reviewing the output and operation of the risk reporting process and undertaking the annual review of the risk reporting process;
- reviewing the tender document and responses in relation to a review of the company's auditors, culminating in the appointment of RSM LLP, subject to shareholder approval at the forthcoming AGM; and
- undertaking the annual review of the need for an internal audit function.

The auditors are 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 six times during the year. The committee's report to shareholders on directors' remuneration is set out on pages 42 to 47.

Nomination committee

The Nomination committee consisted of the three non-executive directors during 2018, chaired by John Booth. The committee's terms of reference include:

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

The committee meets annually, its most recent meeting being held in February 2019. At that meeting the committee concluded that the present board is suitably diverse, well balanced and effective in delivering against the Company's current strategic goals.

Board attendances

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

	Board	Audit and Risk committee	Remuneration committee	Nomination committee
Number of meetings in the year				
J Booth	17	6	5	1
E Buxton	18	-	-	-
S Legg	16	-	-	-
A McCaffery	16	-	-	-
A Nabavi	18	6	6	1
K Stevens	18	-	-	-
N Taylor	17	6	6	1
M Townsend	18	-	-	-

In addition to the regular monthly meetings, additional meetings were held during the year relating to the acquisition of the Atos customer base, the proposed change of auditor, the approval of the 2017 year end and 2018 interim results and the approval of the issuing of a trading update.

Internal control

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

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

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

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

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.

Report of the Remuneration committee

On behalf of the board, I have pleasure in presenting the report of the Remuneration committee for the year ending 31 December 2018. The information in this report is structured as follows:

- details of how the current remuneration policy has been applied in 2018
- how the remuneration policy will be applied in 2019; and
- an analysis of the remuneration policy and its alignment to Group strategy, setting out the key elements of this policy.

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

The Remuneration committee is appointed by the board and comprises only non-executive directors. The committee meets at least annually to determine, on behalf of the board, the framework of executive remuneration. 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 attract, retain and motivate executives and drive towards this objective. Our remuneration policy uses short term incentive plans which are focussed on our key performance indicators (KPIs), particularly productivity improvement and transformation. Longer term incentives are aligned principally with growth in share price and earnings per share (EPS).

During the year, the membership of the committee comprised three non-executive directors: Annette Nabavi (chair), John Booth and Nicholas Taylor. The committee met on six occasions in 2018.

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

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.

Application of the remuneration policies in 2018 and previously

The executive directors receive an amount of fixed pay made up of a base salary together with a benefits package and pension contribution. Following a review of pay levels both within the business and externally, and taking into account the performance of the business, no pay awards were made to the executive directors in 2018. Neither were the non-executive directors' fees increased.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of both financial and non-financial goals. Executive directors' bonuses are set at between 10% and 35% of base salary. On the basis of the financial performance achieved in 2018, no annual bonuses have been paid. The Sales director also receives commission payments based on a sales target commission plan.

Long term performance for senior executives has, over the last 3 years, been incentivised by way of a long term incentive plan (LTIP) granting nominal cost options which vest based on the achievement of specific criteria. The Company has also issued market value options, with no performance criteria attached, to some of its senior management team. All share-based incentives offered to executive directors and senior managers have minimum three year retention schedules and are subject to continuing employment. LTIP awards made on 27 April 2016 are due to vest on 27 April 2019. As reported in last year's report, Kevin Stevens has achieved the performance criteria set in respect of the option awarded to him on that date and the option will vest in full. The awards made to Mark Townsend and Stuart Legg will vest in part with Stuart Legg receiving 8,600 options (34% of the original award) and Mark Townsend receiving 409 options (3% of the original award). Awards made in 2017 will vest in 2020 if the criteria set for these awards are met or partially met. Additional LTIP awards were made to the executive directors in 2018.

How the remuneration policy will be applied in 2019

The committee will review salary levels in the light of inflation, market comparators, individual and collective performance, as well as any changes in role or responsibility by any of the executive directors.

Annual bonus targets have been the subject of review and we have concluded that these will be based on the balanced scorecard metrics that the Group is now using to measure its performance. These include measures to increase the Group's productivity, customer feedback metrics and metrics which measure progress in our cloud based offerings.

In all cases a threshold based on financial performance (based on predetermined levels of EBITDA and revenue) must be achieved before bonuses are eligible to be paid.

We have also reviewed the long term incentives for 2019. The Remuneration committee has decided to incentivise senior executives, going forward, using market value options rather than nominal cost options linked to long term criteria because of the issues around setting long term conditions which are fair and meaningful. All options will continue to be subject to a three year vesting period. We feel this will be both a simpler and a fairer approach and executive directors will be completely aligned in their long term incentive to achieve share price increases.

Remuneration policy analysis

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

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

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

Report of the Remuneration committee continued

Element of remuneration	Purpose and link to strategy	Policy and approach
Bonus	A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial.	Goals and objectives are set individually with a significant weight being put on meeting annual budget in terms of both revenue and adjusted EBITDA targets. Other objectives include KPIs designed to increase the overall productivity of the Group and KPIs focussed on ensuring the Group's move to cloud-based solutions is achieved. For Stuart Legg, the majority of his bonus derives from his sales commission. The commission payments are based on the achievement of gross profit for the Group as a whole and are capped at 90% of his base salary. Stuart is also targeted with a variable bonus of up to 10% of base salary, in addition to his sales commission, based on the achievement of revenue and adjusted EBITDA targets for the Group. Executive directors' bonuses are set at between 10% and 35% of base salary. Additional bonus of up to 5% of salary may also be paid if certain stretch targets are met. All the KPIs and financial targets have to be met for an executive director to receive a full bonus.
Long term incentive plan (LTIP)	To encourage and reward delivery of the Group's long-term growth objectives and provide alignment with shareholders through the use of share based incentives.	All share-based incentives offered to executive directors have 3-year vesting schedules. Grants made under the Company share option plan (CSOP) are at market price at the date of grant. Grants were also made in 2016 and 2017 under the LTIP of nominal cost options with strict performance conditions based mainly on the achievement of EPS growth and upper quartile valuation metrics. Vesting is also subject to continuing employment. LTIP grants in 2018 were based on performance conditions of adjusted EPS growth as before, but substituting share price growth for upper quartile valuation because of the issues around suitable comparators. Share-based incentives going forward will be based on market value options which ensures that executive directors' incentives will be completely aligned with the achievement of share price increases. The plan rules include amongst other things claw-back and malus provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period. When granting options, the committee takes into account the potential value that will be created under the performance conditions attached to the grant.

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

Details of share options granted are shown below.

Directors' service agreements

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

Non-executive directors

The non-executive directors each have a contract terminable on 3 months' notice.

The level of remuneration of the non-executive directors is recommended by the executive directors to the board, and is based upon the level of fees paid at comparable companies and taking account of the directors' evolving responsibilities. Taking these factors into account, the remuneration of the non-executive directors was reviewed on 6 February 2019. 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 in 2017, as described below.

Details of directors' remuneration in 2018

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

	Salaries/ fees	Benefits	Bonus[5]	Pension contributions	Total 2018[1]	Total 2017[1, 2]
Non-executive directors						
J D S Booth	47	-	-	1	48	47
A P Nabavi[3]	35	-	-	-	35	35
N J Taylor[4]	35	-	-	-	35	35
Executive directors						
E Buxton	234	14	-	7	255	254
S Legg	170	11	133	5	319	314
A J McCaffery	98	13	-	3	114	117
K Stevens	155	11	-	5	171	170
M Townsend	171	11	-	10	192	194
	945	60	133	31	1,169	1,166

[1] Excluding social security costs in respect of the above amounting to £147,000 (2017: £145,000).

[2] Total 2017 remuneration of £1,166,000 includes bonuses of £129,000 being commission paid to Stuart Legg, employer pension contributions of £30,000 and benefits of £75,000, so that salaries amounted to £932,000.

[3] In addition to her fees as a director stated above, in 2017 the Company paid £4,000 to a company of which Mrs Nabavi is a shareholder and director in respect of consultancy services provided to the Company during that year. No consultancy fees were paid to Mrs Nabavi in 2018.

[4] In addition to his fees as a director stated above, in 2017 the Company paid £7,000 to a company of which Mr Taylor is a shareholder and director in respect of consultancy services provided to the Company during that year. No consultancy fees were paid to Mr Taylor in 2018.

[5] No bonus was paid to any executive director in respect of 2018 or 2017 performance except commissions paid to Stuart Legg.

Share options

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

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

All options above have vested.

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

The Plan provides for a number of different types of option to be granted. In 2018 the board granted market value priced CSOP options to ten members of the senior management team, one of whom has since left the Group. It also granted nominal cost options with strict performance criteria to Rufus Grig, Stuart Legg, Kevin Stevens, Mark Townsend and to a senior manager who has since left the Group.

Report of the Remuneration committee
continued

The following options remain outstanding under the Plan:

Option holder	Number of shares	Date of grant	Normal vesting date	Option price	Expiry of option
As CSOP options					
Eddie Buxton	3,409	27 April 2016	27 April 2019	880p	27 April 2026
Stuart Legg	3,409	27 April 2016	27 April 2019	880p	27 April 2026
Kevin Stevens	3,409	27 April 2016	27 April 2019	880p	27 April 2026
Mark Townsend	3,409	27 April 2016	27 April 2019	880p	27 April 2026
Senior management[a]	18,000	12 April 2018	12 April 2021	675p	12 April 2028

[a] Nine members of the senior management team, each awarded options over 2,000 shares.

These options are not subject to any performance conditions.

Subject to performance conditions					
Stuart Legg[1]	25,000	27 April 2016	27 April 2019	1p	27 April 2026
Kevin Stevens[2]	15,000	27 April 2016	27 April 2019	1p	27 April 2026
Mark Townsend[3]	15,000	27 April 2016	27 April 2019	1p	27 April 2026
Eddie Buxton[4]	10,000	10 April 2017	10 April 2020	1p	10 April 2027
Rufus Grig[5]	8,000	10 April 2017	10 April 2020	1p	10 April 2027
Stuart Legg[1]	25,000	10 April 2017	10 April 2020	1p	10 April 2027
Kevin Stevens[6]	5,000	10 April 2017	10 April 2020	1p	10 April 2027
Mark Townsend[3]	15,000	10 April 2017	10 April 2020	1p	10 April 2027
Rufus Grig[7]	2,000	12 April 2018	12 April 2021	1p	12 April 2028
Stuart Legg[8]	10,000	12 April 2018	12 April 2021	1p	12 April 2028
Kevin Stevens[7]	5,000	12 April 2018	12 April 2021	1p	12 April 2028
Mark Townsend[7]	10,000	12 April 2018	12 April 2021	1p	12 April 2028

The 10,000 nominal cost options and the 2,000 market value options granted to James Stevenson lapsed on his leaving the Group in 2018.

Full vesting of the above nominal cost options for the respective recipients is subject to:

[1] three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests of 2% pa with 100% vesting at 15% pa (40% of grant), (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting (20% of grant), and (c) achievement of the Group sales revenue target as set in the budget agreed by the board each year with a minimum threshold of 50% at which 40% of the grant under this condition will vest. Below 50%, no options will vest. The sales target condition attaching to the options granted on 27 April 2016 was partly achieved. The condition relating to the Company's EV/EBITDA ratio for the options granted on 27 April 2016 has not been achieved. The condition relating to EPS growth for the options granted on 27 April 2016 has been partially achieved. Consequently 8,600 of these options will vest on 27 April 2019.

[2] the achievement of a minimum level of synergies and cost savings as defined in the AIM Admission documents pursuant to the acquisition of Azzurri, which has been achieved, so that these options will vest in full on 27 April 2019.

[3] two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests of 2% pa with 100% vesting at 15% pa (50% of grant), and (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting (50% of grant). The condition relating to the Company's EV/EBITDA ratio for the options granted on 27 April 2016 has not been achieved. The condition relating to EPS growth for the options granted on 27 April 2016 has been partially achieved. Consequently 409 of these options will vest on 27 April 2019.

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

[5] two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) achievement of a defined growth in the number of users of the Group's cloud services.

[6] three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, (b) the Company's EV/EBITDA ratio being in excess of its peer group for the majority of the six months prior to the option vesting, and (c) delivery of defined transformation projects during 2017.

[7] two performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, and (b) a minimum increase in the Company's share price between the three months preceding grant and the three months preceding vesting.

[8] three performance conditions being satisfied: (a) a minimum EPS growth in the period before the option vests, (b) a minimum increase in the Company's share price between the three months preceding grant and the three months preceding vesting, and (c) achievement of the Group sales target agreed by the board for the each of the three years following the option grant.

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:

	2018 Number of options	2018 WAEP	2017 Number of options	2017 WAEP
Outstanding at the beginning of the year	385,272	208p	314,272	254p
Granted during the year	49,000	276p	71,000	1p
Lapsed in the year	(12,000)	113p	-	-
Outstanding at the end of the year	422,272	218p	385,272	208p

The Company's mid-market share price at 31 December 2018 was 465p per share, and the high and low prices during the year were 850p and 465p 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 and executive directors with at least six months' continuous service with a Group company, and allows employees 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 five years to benefit from the full tax benefits of the plan. At 31 December 2018, there were 69,389 shares held by the SIP, representing 0.5% of the issued share capital of the Company (2017: 65,564 and 0.5%).

The report of the Remuneration committee was approved by the board on 15 March 2019.

Annette P Nabavi

Chair of the Remuneration Committee

Report of the directors

The directors present their annual report together with the audited financial statements for the year ended 31 December 2018.

Strategic report

The Maintel overview, Chairman's statement and Business review on pages 4 to 29 comprise the Strategic report, which is incorporated in the Directors' report by reference. The Business review also contains an indication of likely future developments for the business.

Results and dividends

The consolidated statement of comprehensive income is set out on page 58 and shows the profit of the Group for the year.

During the year the Company paid a final dividend of 19.1p per ordinary share in respect of the 2017 financial year, amounting to £2.7m (2017: 17.4p, amounting to £2.5m), and an interim dividend in respect of 2018 of 15.0p per share, amounting to £2.1m (2017: 14.7p and £2.1m respectively). A final dividend for 2018 is proposed of 19.5p per share with a payment date of 16 May 2019.

Directors

The directors of the Company during the year and their interests in the ordinary shares of the Company at 31 December 2018 were as follows:

John Booth is a shareholder in Herald Investment Trust Plc, which has notified the Company of an interest in 804,217 1p ordinary shares; this is in addition to Mr Booth's beneficial holding above. John Booth also holds 4,000 non-beneficial shares which are held in a charitable foundation of which he is a trustee.

The other non-beneficial holdings below 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 2,994 shares in total, including 91 in respect of each of S Legg and K Stevens. There were no other changes in the directors' shareholdings between 31 December 2018 and 15 March 2019.

Dale Todd, Company secretary, will retire on 8 April. His replacement, who has been recruited, will be appointed on the same day.

On 4 March 2019, Mark Townsend, Chief financial officer, informed the Board of his intention to leave the Company for personal reasons. Mark's notice period is six months and it is currently expected that he will remain in post throughout that period to ensure an orderly handover. The Board will now take steps to identify a new Chief financial officer and will update the market when appropriate.

	Number of 1p ordinary shares			
	2018 Beneficial	**2018 Non-beneficial**	**2017 Beneficial**	**2017 Non-beneficial**
J D S Booth	3,332,123	4,000	3,332,123	4,000
E Buxton	5,436	63,953	5,178	60,386
S D Legg	597	-	321	-
A J McCaffery	2,199,901	-	2,199,454	-
A P Nabavi	198	-	198	-
K Stevens	3,619	-	3,220	-
N J Taylor	17,257	69,389	16,315	65,564
M V Townsend	472	-	214	-

Substantial shareholders

In addition to the directors' shareholdings, at 15 March 2019 the Company had been notified of the following shareholdings of 3% or more in the ordinary share capital of the Company:

	Number of 1p ordinary shares	% of issued ordinary shares
J A Spens	2,088,314	14.7%
Hargreave Hale Ltd	1,987,278	14.0%
Herald Investment Trust Plc	804,217	5.7%
Elitetele.Com Plc	620,614	4.4%

Share capital

Details of the share capital of the Company are shown in note 25 of the financial statements.

No shares were issued or repurchased during the year.

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

Employees

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

Full and fair consideration is given 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.

It is recognised that the continual development of the Group's employees is key to both their engagement and retention and therefore its long-term success. There has therefore been significant investment in this area during the year with the recruitment of a Head of learning and development to drive this transformational programme of work.

The approach to communication with employees is reviewed on a regular basis to ensure relevance of both delivery methods and content of information. This currently includes channels such as face to face updates from the Executive Management Team, a monthly update which is emailed to all employees and regular team and individual meetings with employees.

Two-way communication is key to the success of the Group and an employee forum developed in previous years is now a well-established mechanism to achieve this, accompanied by an annual employee survey, with action taken on the results where practicable.

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

Report of the directors continued

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.

Environment

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

Financial instruments

Details of the use of financial instruments by the Group are contained in note 24 of the financial statements.

Annual General Meeting

The Annual General Meeting of the Company will be held at its London offices on 13 May at 10.00 am.

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.

The Company announced on 31 October 2018 that, following a competitive tender process led by the Company's Audit & Risk committee, RSM LLP would replace BDO LLP as auditor of the Group for the financial year ending 31 December 2019, subject to shareholder approval. A resolution to approve their appointment will be proposed at the forthcoming annual general meeting.

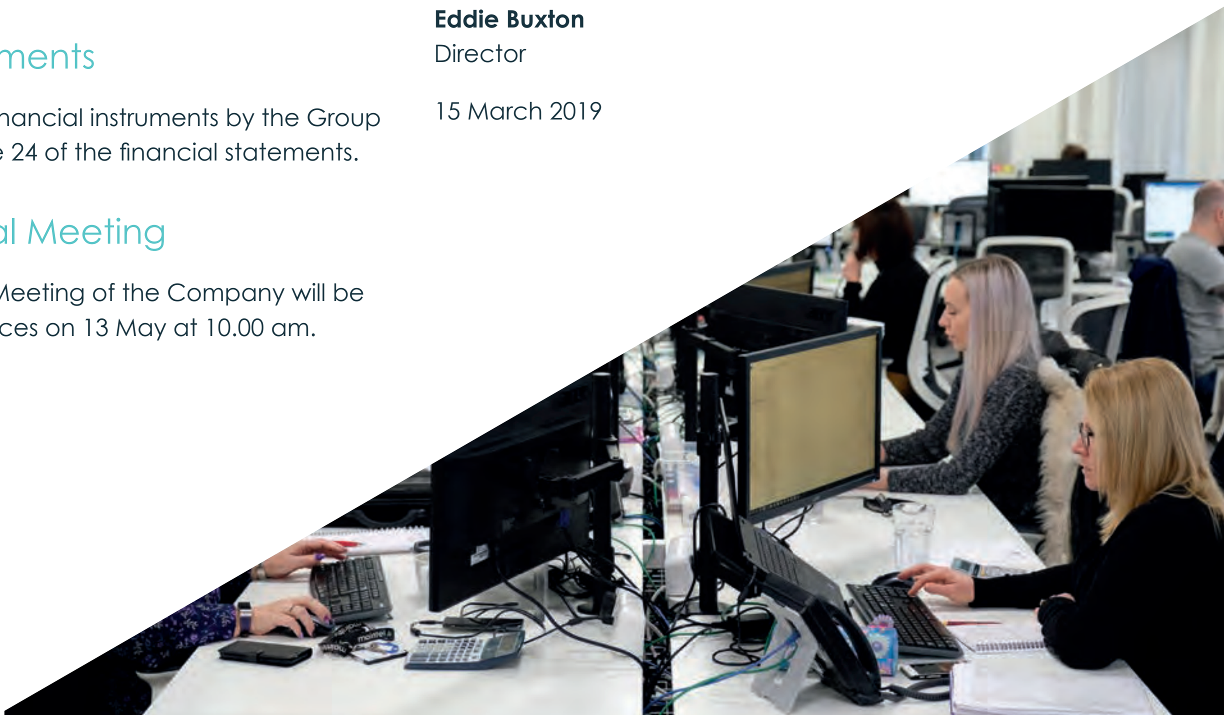
The Company stated its intention to tender the audit in the Group's Interim Financial Statement issued on 10 September 2018.

The Board would like to thank BDO LLP and the various partners, managers and audit team members who have served the Company so well as the Group's auditors over the past 14 years.

On behalf of the board

Eddie Buxton
Director

15 March 2019



Statement of directors' responsibilities

Directors' responsibilities

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

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

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

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

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

Website publication

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

Financial statements

Independent auditor's report

to the members of Maintel Holdings Plc

Opinion

We have audited the financial statements of Maintel Holdings Plc (the 'parent company') an its subsidiaries (the 'group') for the year ended 31 December 2018 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 movements in shareholders' funds and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Matter	How we addressed the matter in our audit
Revenue recognition for Managed Services and Technology sales	
The Group has a number of revenue streams. Details of the accounting policies applied during the period are given in note 2 (c) and the impact of IFRS 15 is disclosed in note 2 to the financial statements. Management make certain judgements in relation to revenue recognition for Managed Services and Technology sales under IFRS 15, applied for the first time in FY 2018, and the treatment of contractual arrangements entered into by trading entities in the group. These include determining Maintel's performance obligations in its contracts with customers and whether as at the reporting date, the group has completed its performance obligations such that: • Revenues on technology sales for supply and installation projects should be recognised through the income statement at a point in time where Maintel has completed its performance obligations. • Revenues for managed services should be recognised through the income statement over time. Revenue recognition should only commence after the group has completed installation works and the technology equipment is fully operational in the customer's business. Managed services revenues are generally invoiced in block periods of three to twelve months. This results in a cut off risk at reporting date in relation to accuracy of deferred income recognised in current liabilities. There is a potential risk that revenue is recorded incorrectly from a timing perspective and that revenue is inappropriately recognised.	We assessed whether the revenue recognition policies adopted by the Group comply with accounting standards. In regard to technology revenues, we reviewed a sample of contracts to assess whether: • revenue had been recognised in accordance with the Group's accounting policy and IFRS 15 requirements, • revenue was recognised appropriately from a timing perspective based on whether Maintel had completed its performance obligations under the contract prior to the reporting date or not; and • any other terms within the contract had any material accounting or disclosure implications. In making our assessment of compliance with the Group's accounting policy, we tested whether Maintel's performance obligations had been completed by the year-end by reference to its obligations stated in the customer contracts, correspondence with customers on supply and installation works and discussions with project managers. In relation to managed services revenues, we tested a sample of customer contracts to ensure Maintel were recognising revenues over time in accordance with accounting standard requirements and that revenues only commenced to be recognised after installation works had been completed. We also tested a sample of deferred income balances for completeness and accuracy by checking the calculations of deferred income in the Group's deferral programmes run at the reporting date and agreeing key inputs (contract billing period, number of days deferred at reporting date and sales prices net of VAT) to supporting documentation.
Goodwill and intangible asset impairment risk	
In accordance with accounting standards and as detailed in the accounting policies (note 2 (k)), goodwill is tested for impairment annually, and customer relationships and other intangible assets with finite lives are tested for impairment whenever an indicator of impairment arises. Refer note 3 for the judgements and estimates exercised by management and the directors. Management performed impairment reviews over all goodwill and intangible assets at 31 December 2018 and concluded that there was no impairment. Impairment reviews require significant judgement from management and are inherently based on assumptions in respect of future profitability.	We reviewed the integrity of the impairment models prepared by management and challenged the appropriateness of the key inputs and assumptions used in them, by comparison to industry data, historic trading, and macro-economic factors. The key inputs and assumptions are forecast growth rates, operating cash flows and the discount rate. Our audit procedures relating to the review of operating cash flows included, amongst other procedures, comparing the forecasts to recent financial performance and budgets approved by the Board. We obtained relevant weighted average cost of capital (WACC) rates for comparable listed Technology companies and consulted with our Valuations specialist to assess the reasonableness of the discount rate used by management within the Impairment models. We also performed sensitivity analysis over the key valuation inputs to assess the impact of certain sensitivities on forecasted headroom. We have also assessed whether the disclosures in note 15 were sufficient relative to the results of our sensitivity analysis.

Independent auditor's report continued

Our application of materiality

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

Level of materiality applied and rationale

We consider "adjusted profit before tax" (profit before tax, exceptional items and amortisation) to be the critical performance measure for the Group. Using this benchmark, we set materiality at £500,000 (2017 - £516,000) which represents 5% of adjusted profit before tax (2017 – also represents 5% of adjusted profit before tax). We set parent company materiality at £425,000 (2017 - £438,600) which is group component materiality.

Performance materiality

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

On the basis of our risk assessment together with the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% of overall materiality. As such, performance materiality was set at £318,000 (2017 - £328,000). Performance materiality for the parent company was set at 75% of materiality, being £318,000 (2017 - £328,000).

Component materiality

We set materiality for each component of the Group based on a percentage of materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was set at £425,000 for all components (2017: component materiality ranged from £400,000 to £438,600).

Reporting threshold

We agreed with the Audit Committee that we would report to them all audit differences individually in excess of £25,000 (2017 - £25,800). We also agreed to report audit differences below those thresholds that, in our view, warranted reporting on qualitative grounds. For the parent company we agreed to report all differences in excess of £25,000 (2017 - £25,800).

An overview of the scope of our audit

The group comprises the parent company and two trading entities, Maintel Europe Limited ("MEL") and Maintel International Limited ("MIL"), along with a number of dormant subsidiaries. We considered the trading entities to be significant components, and as such, along with the parent company they were subject to full scope audits. All of the work was carried out by BDO LLP. All of the group's revenue (100%), Total Assets (100%) and Adjusted profit before tax (100%) were subject to audit.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

Julian Frost
(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London, UK
15 March 2019

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

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £000	2017 (restated) £000
Revenue	4	136,459	126,780
Cost of sales		(97,341)	(90,108)
Gross profit		39,118	36,672
Other operating income		476	155
Administrative expenses			
Intangibles amortisation	15	(6,479)	(5,892)
Exceptional costs	13	(1,647)	(1,454)
Share based remuneration		(392)	(296)
Other administrative expenses		(27,565)	(26,677)
		(36,083)	(34,319)
Operating profit	7	3,511	2,508
Financial expense	8	(1,263)	(899)
Profit before taxation		2,248	1,609
Taxation expense	9	(206)	(72)
Profit for the period		2,042	1,537
Other comprehensive expense for the period			
Exchange differences on translation of foreign operations		-	(9)
Total comprehensive income for the period		2,042	1,528
Earnings per share (pence)			
Basic	11	14.4p	10.8p
Diluted	11	14.1p	10.6p

The notes on pages 63 to 90 form part of these consolidated financial statements.

Consolidated statement of financial position

at 31 December 2018

	Note	31 December 2018 £000	31 December 2018 £000	31 December 2017 (restated) £000	31 December 2017 (restated) £000	1 January 2017 (restated) £000	1 January 2017 (restated) £000
Non current assets							
Intangible assets	15		69,389		67,495		63,152
Property, plant and equipment	17		2,046		1,471		3,293
			71,435		68,966		66.445
Current assets							
Inventories	19	8,267		10,638		7,877	
Asset held for sale	18	-		1,500		-	
Trade and other receivables	20	34,352		34,290		28,853	
Cash and cash equivalents		-		3,311		10,884	
Total current assets			42,619		49,739		47,614
Total assets			114,054		118,705		114,059
Current liabilities							
Trade and other payables	21	57,725		58,870		52,892	
Short-term borrowings	23	3,988		-		-	
Current tax liabilities		814		823		287	
Total current liabilities			62,527		59,693		53,179
Non current liabilities							
Other payables	21	4,943		1,549		943	
Deferred tax liability	22	3,307		2,260		2,020	
Borrowings	23	21,295		30,707		30,688	
Total non-current liabilities			29,545		34,516		33,651
Total liabilities			92,072		94,209		86,830
Total net assets			21,982		24,496		27,229
Equity							
Issued share capital	25		142		142		142
Share premium	26		24,354		24,354		24,354
Other reserves	26		70		70		79
Retained earnings	26		(2,584)		(70)		2,654
Total equity			21,982		24,496		27,229

The consolidated financial statements were approved and authorised for issue by the board on 15 March 2019 and were signed on its behalf by:

Mark Townsend
Director

The notes on pages 63 to 90 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
At 1 January 2017 (as previously stated)		142	24,354	79	3,676	28,251
Prior year adjustment - IFRS 15 *Revenue from contracts with customers*		-	-	-	(1,022)	(1,022)
At 1 January 2017 (restated)*		142	24,354	79	2,654	27,229
Profit for the period		-	-	-	1,537	1,537
Other comprehensive income:						
Foreign currency translation differences		-	-	(9)	-	(9)
Total comprehensive income for the period		-	-	(9)	1,537	1,528
Dividend	10	-	-	-	(4,557)	(4,557)
Grant of share options		-	-	-	296	296
At 31 December 2017 (restated)*		142	24,354	70	(70)	24,496
At 31 December 2017 (as previously stated)		142	24,354	70	2,497	27,063
Prior year adjustment - IFRS 15 *Revenue from contracts with customers*		-	-	-	(2,567)	(2,567)
At 31 December 2017 (restated)*		142	24,354	70	(70)	24,496
IFRS 9 (impairment charge for credit losses to opening reserves)		-	-	-	(108)	(108)
Profit for the period		-	-	-	2,043	2,043
Other comprehensive income:						
Foreign currency translation differences		-	-	-	-	-
Total comprehensive income for the period		-	-	-	2,043	2,043
Dividend	10	-	-	-	(4,841)	(4,841)
Grant of share options		-	-	-	392	392
At 31 December 2018		142	24,354	70	(2,584)	21,982

* Refer to note 2 for a summary of adjustments raised in relation to the change in accounting policy for IFRS 15 and the restatement of equity at 1 Jan 2017 and 31 December 2017.

The notes on pages 63 to 90 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2018

	2018 £000	2017 (restated) £000
Operating activities		
Profit before taxation	2,248	1,609
Adjustments for:		
Intangibles amortisation	6,479	5,892
Share based payment charge	392	296
Loss on sale of property, plant and equipment	21	156
Depreciation charge	711	763
Interest payable	1,263	899
Operating cash flows before changes in working capital	11,114	9,615
Decrease / (increase) in inventories	2,274	(2,630)
(Increase) / decrease in trade and other receivables	(125)	1,899
Decrease in trade and other payables	(4,172)	(4,257)
Cash generated from operating activities (see sub analysis below)	9,091	4,627
Cash generated from operating activities excluding exceptional costs and non cash credits	10,585	6,185
Exceptional cost - excluding acquisition legal and professional costs below (note 13)	(1,450)	(1,285)
Cash generated from operating activities excluding acquisition legal and professional costs	9,135	4,900
Exceptional cost - acquisition legal and professional costs	(44)	(273)
Cash generated from operating activities	9,091	4,627
Tax paid	(442)	(211)
Net cash flows from operating activities	8,649	4,416
Investing activities		
Purchase of plant and equipment	(1,264)	(393)
Purchase of software	(501)	(1,089)
Proceeds from the disposal of asset held for sale	1,500	-
Purchase price in respect of business combination	(2,158)	(4,906)
Net cash acquired with subsidiary undertaking	1,977	11
	(181)	(4,895)
Net cash flows from investing activities	(446)	(6,377)

Consolidated statement of cash flows

for the year ended 31 December 2018
continued

	2018 £000	2017 (restated) £000
Financing activities		
Proceeds from borrowings	-	9,000
Repayment of borrowings	(9,500)	(9,000)
Interest paid	(1,161)	(986)
Issue costs of debt	-	(60)
Equity dividends paid	(4,841)	(4,557)
Net cash flows from financing activities	(15,502)	(5,603)
Net decrease in cash and cash equivalents	(7,299)	(7,564)
Cash and cash equivalents at start of period	3,311	10,884
Exchange differences	-	(9)
Bank overdrafts / cash and cash equivalents at end of period	(3,988)	3,311

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

Reconciliation of liabilities from financing activities

Non-current loans and borrowings (note 23)

	2018 £000	2017 £000
At 1 January	30,707	30,688
Cash Flows	(9,500)	-
Non-cash movements (amortised debt issue costs)	88	19
At 31 December	21,295	30,707

The notes on pages 63 to 90 form part of these consolidated financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018

1. General information

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

2. Accounting policies

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

(a) Basis of preparation

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

(b) Basis of consolidation

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

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

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

(c) Revenue

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

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

Managed services and technology

Managed services revenues are recognised over time, over the relevant contract term, on the basis that the customer simultaneously receives and consumes the benefits provided by the Group's performance of the services over the contract term. Where the Group's performance of its obligations under a contract exceeds amounts received, accrued income or a trade receivable is recognised depending on Group's billing rights. Where the Group's performance of its obligations under a contract is less than amounts received, deferred income is recognised.

Technology revenues for contracts with customers, which include both supply of technology goods and installation services, represent in substance one performance obligation and result in revenue recognition at a point in time, when the Group has fulfilled its performance obligations under the relevant customer contract. Under these contracts, the Group performs a significant integration service which results in the technology goods and the integration service being one performance obligation. Over the course of the contract, the technology goods, which comprise both hardware and software components are customised through the integration services to such an extent that the final customised technology goods installed on completion are substantially different to their form prior to the integration service. Revenue is recognised when the integrated technology equipment and software has been installed and accepted by the customer.

Network services

Revenues for network services are comprised of call traffic, line rentals and data services, which are recognised over time, for services provided up to the reporting date, on the basis that the customer simultaneously receives and consumes the benefits provided by the Group's performance of the services over the contract term. Amounts received in advance of the performance of the call traffic, line rentals and data services are recognised as performance obligations and released to revenue as the Group performs the services under the contract. Where the Group's performance of its obligations under a contract are less than amounts received, deferred income is recognised.

Mobile

Connection commission received from the mobile network operators on fixed line revenues, are allocated primarily to two separate performance obligations, being (i) the obligation to provide a hardware fund to end users for the supply of handsets and other hardware kit - revenues are recognised under these contracts at a point in time when the hardware goods are delivered to the customer and the customer has control of the

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

assets; and (ii) ongoing service obligations to the customer - revenues are spread over the course of the customer contract term. In the case of (i) revenues are recognised based on the fair value of the hardware goods provided to the customer on delivery and for (ii) the residual amounts, representing connection commissions less the hardware revenues are recognised as revenues over the customer contract term.

Customer overspend and bonus payments are recognised monthly at a point in time when the Group's performance obligations have been completed; these are also payable by the network operators on a monthly basis.

(d) Operating leases

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

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

(e) Employee benefits

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

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

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

(f) Redundancy costs

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

(g) Interest

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

(h) Taxation

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

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

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

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

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

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

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

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

(i) Dividends

Dividends unpaid at the reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

Proposed but unpaid dividends that do not meet these criteria are disclosed in the notes to the consolidated financial statements.

(j) Intangible assets

Goodwill

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

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

Customer relationships

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

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

Product platform

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

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

Brand

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

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

Software (Microsoft licences and Callmedia)

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

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

(k) Impairment of non current assets

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

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

(l) Property, plant and equipment

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

Office and computer equipment	25% straight-line
Motor vehicles	25% straight-line
Leasehold improvements	over the remaining period of the lease
Freehold building (2017 only)	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.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

(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.

The Group reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions. The Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. Trade and other payables are not interest bearing and are stated at their amortised cost.

(p) Borrowings

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

(q) Assets held for sale

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

(r) Foreign currency

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

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

(s) Accounting standards issued

IFRS 15 *Revenue from Contracts with Customers*

An analysis of the key changes that IFRS 15 has on the Group's revenue streams, taking into account the move from the recognition of revenue on the transfer of risks and rewards to the transfer of control are summarised below:

- Technology revenues: certain contracts with customers, which include both supply of technology goods and installation services, represent in substance one performance obligation under IFRS 15 and result in revenue recognition at a point in time. This is different to the previous treatment, whereby the supply of goods and professional services were treated as separate sale arrangements. In relation to these contracts, the Group performs a significant integration service which results in the technology goods and the integration service being one performance obligation under IFRS 15. Under IAS 18, the installation was judged to be separable, as it was possible for a customer to obtain equipment and kit from one party and obtain installation services from another. In addition, associated commission payments to sales staff are capitalised as an asset and will be released to profit and loss when the performance obligation has been satisfied. The effect of these adjustments on the comparative periods are disclosed on pages 67-69.
- Mobile business: connection commission revenues received from mobile network operators on fixed line revenues were previously spread over the term of the customer contract. Under IFRS 15 the Group's mobile contracts with customers include a number of performance obligations. Typically, these include an obligation to provide a hardware fund to the end users. Under IFRS 15 revenues for the supply of handsets and other hardware kit are recognised under these contracts at a point in time when the hardware goods are delivered to the customer. This is different to the previous treatment of spreading the associated revenue over the course of the customer contract. The financial effect of the change in policy did not have a material impact for the current and comparative periods, no adjustments were required to the current or comparative periods.

The Group's new accounting policy for revenue recognition is explained in detail in note 2(c).

IFRS 9 *Financial instruments*

In adopting IFRS 9, the only changes made from the previous reporting period is in relation to the impairment of financial assets. The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. The Group has elected to adopt the initial application date of 1 Jan 2018 and therefore has chosen not to restate, comparatives. The effect of IFRS 9 is an increase to the provision of £108,000 and an adjustment to opening reserves at 1 January 2018 of £108,000. The effect on the current year was immaterial.

Accounting standards issued (not yet mandatory)

The Group also notes IFRS16 *Leases*, which takes effect and will be adopted in 2019. The Group has elected to take the fully retrospective approach. As a result of the new standard the Group will recognise a lease liability and a right of use asset at 1 January 2019 for leases previously classified as operating leases applying IAS 17. The Group has calculated that the right of use asset to be recognised at 1 January 2019 will be £4.8m and there will be a corresponding liability of £4.8m. An estimation of the expected depreciation charge against the right of use asset in 2018 has been calculated to be £0.8m, with an interest charge of £0.2m, which compares to an operating lease charge within operating expenses of £0.9m. Details of the Group's operating lease commitments are disclosed in note 29.

The table below shows the effect of IFRS 15 on the restated Consolidated statement of comprehensive income for the year ended 31 December 2017:

Impact of IFRS 15 on Consolidated statement of comprehensive income

for the 12 months ended 31 December 2017

	As previously reported £000	Adjustment for IFRS 15 £000	As restated £000
Revenue	**133,079**	**(6,299)**	**126,780**
Cost of sales	(94,290)	4,182	(90,108)
Gross profit	**38,789**	**(2,117)**	**36,672**
Other operating income	155	-	155
Administrative expenses	(34,529)	210	(34,319)
Operating profit	**4,415**	**(1,907)**	**2,508**
EBITDA	11,070	(1,907)	9,163
Profit before taxation for the period	**3,516**	**(1,907)**	**1,609**
Taxation expense	(434)	362	(72)
Profit for the period and attributable to owners of the parent	**3,082**	**(1,545)**	**1,537**

The adjustments under IFRS 15 include the following items:

- Technology supply and installation contract revenues of £6.3m have been reversed with the corresponding adjustments recognised through accrued income (other receivables) or Other deferred income;
- Cost of sales of £4.2m in connection with equipment for supply and installation contract revenues have been reversed and recognised as an asset in Inventories;
- Commission costs in respect of supply and installation contract billings of £0.2m have been reversed and recognised as an asset;
- Taxation expense has been adjusted for the current tax effect of the above adjustments to profit before tax.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

The tables below show the effect of IFRS 15 on the restated Consolidated statement of financial position as at 31 December 2017 and Consolidated statement of cash flows for the 12 months ended 31 December 2017:

Impact of IFRS 15 on Consolidated statement of financial position

as at 31 December 2017

	As previously reported £000	Adjustment for IFRS 15 £000	As restated £000
Non-current assets	**68,966**	**-**	**68,966**
Current assets			
Inventories	3,251	7,387	10,638
Asset held for sale	1,500	-	1,500
Trade and other receivables	37,257	(2,967)	34,290
Cash and cash equivalents	3,311	-	3,311
Total current assets	**45,319**	**4,420**	**49,739**
Total assets	**114,285**	**4,420**	**118,705**
Current liabilities			
Trade and other payables	51,367	7,590	58,957
Current tax liabilities	1,426	(603)	823
Total current liabilities	**52,793**	**6,987**	**59,780**
Non-current liabilities	**34,429**	**-**	**34,429**
Total liabilities	**87,222**	**6,987**	**94,209**
Total net assets	**27,063**	**(2,567)**	**24,496**
Equity			
Issued share capital	142	-	142
Share premium	24,354	-	24,354
Other reserves	70	-	70
Retained earnings	2,497	(2,567)	(70)
Total equity	**27,063**	**(2,567)**	**24,496**

The adjustments under IFRS 15 include the following items:

- Inventories: the costs for technology equipment and sales commissions in connection with supply and installation contract revenues reversed for FY 2017 and prior periods have been recognised as an asset;
- Accrued income: accrued income of £3.0m recognised previously on technology supply and installation contract revenues have been reversed;
- Trade and other payables: additional deferred revenues of £7.6m have been recognised in relation to technology supply and installation contracts where the revenues have been reversed;
- Current tax liabilities: these have decreased to account for lower taxes payable in relation to lower profits assessed to corporation tax as a result of the IFRS 15 adjustments.

Impact of IFRS 15 on Consolidated statement of cash flows

for the 12 months ended 31 December 2017

	As previously reported £000	Adjustment for IFRS 15 £000	As restated £000
Operating activities			
Profit before taxation	3,516	(1,907)	1,609
Operating cash flows before changes in working capital	**11,522**	**(1,907)**	**9,615**
Decrease / (increase) in inventories	1,762	(4,392)	(2,630)
(Increase) / decrease in trade and other receivables	(550)	2,449	1,899
Decrease in trade and other payables	(8,107)	3,850	(4,257)
Cash generated from operating activities	4,627	-	4,627

Impact of IFRS 15 on opening balance sheet at 1 January 2017

	As previously reported £000	Adjustment for IFRS 15 £000	As restated £000
Non-current assets	**66,445**	**-**	**66,445**
Current assets			
Inventories	4,882	2,995	7,877
Trade and other receivables	29,371	(518)	28,853
Cash and cash equivalents	10,884	-	10,884
Total current assets	**45,137**	**2,477**	**47,614**
Total assets	**111,582**	**2,477**	**114,059**
Current liabilities			
Trade and other payables	49,153	3,739	52,892
Current tax liabilities	527	(240)	287
Total current liabilities	**49,680**	**3,499**	**53,179**
Non-current liabilities	**33,651**	**-**	**33,651**
Total liabilities	**83,331**	**3,499**	**86,830**
Total net assets	**28,251**	**(1,022)**	**27,229**
Equity			
Issued share capital	142	-	142
Share premium	24,354	-	24,354
Other reserves	79	-	79
Retained earnings	3,676	(1,022)	2,654
Total equity	**28,251**	**(1,022)**	**27,229**

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

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 2018, 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 22, which involves estimating the profitability for the Datapoint businesses, which are now reported within Maintel Europe Ltd. The company recognises the deferred tax asset for Datapoint tax losses on a streamed basis against forecast future taxable profits, which are expected to be generated by the former Datapoint businesses.

Impairment of non-current assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The Group is also required to test other finite life intangible assets for impairment where impairment indicators are present. The recoverability of assets subject to impairment reviews is assessed based on whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of uncertain matters.

In particular, management exercises estimation in determining assumptions for revenue growth rates and gross margins for future periods which are important components of future cash flows, and also in determining the appropriate discount rates which are used across the Group's cash generating units (refer to note 15).

4. Segment information

Year ended 31 December 2018

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	89,888	40,946	5,625	-	136,459
Gross profit	26,364	9,836	2,918	-	39,118
Other operating income					476
Other administrative expenses					(27,565)
Share based remuneration					(392)
Intangibles amortisation					(6,479)
Exceptional costs					(1,647)
Operating profit					3,511
Interest payable					(1,263)
Profit before taxation					2,248
Taxation expense					(206)
Profit after taxation					2,042

Revenue is wholly attributable to the principal activities of the Group and other than sales of £4.7m to EU countries and £0.8m to the rest of the world (2017: £8.2m to EU countries, and £1.8m to the rest of the world), arises within the United Kingdom.

In 2018 the Group had no customer (2017: None) which accounted for more than 10% of its revenue.

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

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Intangibles amortisation	-	-	-	(6,479)	(6,479)
Exceptional costs	1,647	-	-	-	1,647

Year ended 31 December 2017 (restated)

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	73,087	46,795	6,898	-	126,780
Gross profit	20,995	12,396	3,281	-	36,672
Other operating income					155
Other administrative expenses					(26,677)
Share based remuneration					(296)
Intangibles amortisation					(5,892)
Exceptional costs					(1,454)
Operating profit					2,508
Interest payable					(899)
Profit before taxation					1,609
Taxation expense					(72)
Profit after taxation					1,537

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

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

5. Employees

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

	2018 Number	2017 Number
Corporate and administration	93	101
Sales and customer service	220	253
Technical and engineering	292	298
	605	652

Staff costs, including directors, consist of:

	£000	£000
Wages and salaries	33,427	**33,502**
Social security costs	3,726	**3,913**
Pension costs	809	**799**
	37,961	**38,214**

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 £166,000 (2017: £138,000) were payable to the schemes at the year-end and are included in other payables.

6. Directors' remuneration

The remuneration of the Company directors was as follows:

	2018 £000	2017 £000
Directors' emoluments	1,138	1,136
Pension contributions	31	30
	1,169	1,166

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

	2018 £000	2017 £000
Directors' emoluments	314	309
Pension contributions	5	5
	319	314

The Group paid contributions into defined contribution personal pension schemes in respect of 7 directors during the year, 3 of whom were auto-enrolled at minimal contribution levels, and 1 was on both (2017: 7, 3 auto-enrolled).

Further details of director remuneration are shown in the Remuneration committee report on page 42.

7. Operating profit

	2018 £000	2017 £000
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	711	763
Amortisation of intangible fixed assets	6,479	5,892
Operating lease rentals payable:		
- property	1,104	1,101
- plant and machinery	315	402
Operating lease rentals receivable – property	(154)	(155)
Research and development tax credit	(321)	-
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15	14
Fees payable to the Company's auditor for other services:		
- due diligence and other acquisition costs	4	149
- audit of the Company's subsidiaries pursuant to legislation	173	192
- audit-related assurance services	-	35
- tax compliance services	19	18
Fees payable to other auditors	-	29
Foreign exchange movement	10	(149)
Loss on sale of property plant and equipment	21	156

8. Financial income and expense

	2018 £000	2017 £000
Interest payable on bank loans and deferred consideration	1,263	899

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

9. Taxation

	2018 £000	2017 (restated) £000
UK corporation tax		
Corporation tax on profits of the period	924	746
Adjustment for prior year	(491)	-
	433	746
Deferred tax (note 22)		
Current year	(678)	(674)
Adjustment for prior year	451	-
Taxation on profit on ordinary activities	206	72

The standard rate of corporation tax in the UK for the period was 19%, and therefore the Group's UK subsidiaries are taxed at that rate. Reductions in UK tax rate to 19% with effect from 1 April 2017 and 17% from 1 April 2020 were substantively enacted on 15 September 2017. 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:

	2018 £000	2017 (restated) £000
Profit before tax	2,248	1,609
Profit at the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	427	310
Effect of:		
Expenses not deductible for tax purposes, net of reversals	54	57
Capital allowances less than depreciation	135	44
Effects of change in tax rates	(1)	11
Effects of overseas tax rates	(7)	(14)
Adjustments relating to prior years	(41)	-
Decrease / (increase) in deferred tax asset relating to Datapoint tax losses (note 22)	(500)	(500)
Increase in deferred tax liability relating to intangible assets	139	164
	207	72

10. Dividends paid on ordinary shares

	2018 £000	2017 £000
Final 2016, paid 18 May 2017 – 17.4p per share	-	2,470
Interim 2017, paid 5 October 2017 – 14.7p per share	-	2,087
Final 2017, paid 11 May 2018 – 19.1p per share	2,712	-
Interim 2018, paid 4 October 2018 – 15.0p per share	2,129	-
	4,841	4,557

The directors propose the payment of a final dividend for 2018 of 19.5p (2017: 19.1p) per ordinary share, payable on 16 May 2019 to shareholders on the register at 29 March 2019. The cost of the proposed dividend, based on the number of shares in issue as at 15 March 2019, is £2,768,000 (2017: £2,712,000).

11. Earnings per share

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

	2018 £000	2017 (restated) £000
Earnings used in basic and diluted EPS, being profit after tax	2,042	1,537
Adjustments:		
Intangibles amortisation (note 15)	6,099	5,386
Exceptional costs (note 13)	1,647	1,454
Share based remuneration	392	296
Tax relating to above adjustments	(1,518)	(1,372)
Deferred tax charge on utilisation of Datapoint tax losses	475	392
Interest charge on deferred consideration	84	-
Increase in deferred tax asset in respect to Datapoint tax losses	(500)	(500)
Deferred tax charge on capital allowances acquired from Azzurri	441	403
Increase / (decrease) in deferred tax liability of intangible assets	139	164
Adjusted earnings used in adjusted EPS	9,301	7,760

Datapoint has brought forward historic tax losses, which the Group will benefit from in respect of its 2018 taxable profits. On acquisition a deferred tax asset was recognised in respect of a proportion of its tax losses, and a deferred tax charge of £475,000 was calculated on a streamed basis and was recognised in the income statement for 2018 (2017: £392,000). As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above. An increase of £500,000 (2017: £500,000) in the deferred tax asset relating to Datapoint useable losses was reflected in the income statement and similarly adjusted for above.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

Azzurri has brought forward capital allowances and on acquisition, a deferred tax asset was acquired in respect of its capital allowances. A deferred tax charge of £441,000 has been recognised in the income statement in respect of the period's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

An increase of £139,000 (2017: £164,000) in the deferred tax liability relating to intangible assets was reflected in the income statement in 2018 and similarly adjusted for above.

	2018 Number (000s)	2017 Number (000s)
Weighted average number of ordinary shares of 1p each	14,197	14,197
Potentially dilutive shares	274	275
	14,471	14,472
Earnings per share		
Basic	14.4p	10.8p
Diluted	14.1p	10.6p
Adjusted - basic but after the adjustments in the table above	65.5p	54.7p
Adjusted - diluted after the adjustments in the table above	64.3p	53.6p

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

	2018 £000	2017 (restated) £000
Profit before tax	2,248	1,609
Net interest	1,263	899
Depreciation of property, plant and equipment	711	763
Amortisation of intangibles	6,479	5,892
EBITDA	10,701	9,163
Share based remuneration	392	296
Exceptional costs (note 13)	1,647	1,454
Adjusted EBITDA	12,740	10,913

13. Exceptional costs

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

	2018 £000	2017 £000
Property-related legal and professional costs	5	83
Acquisition and restructuring related redundancy costs	1,129	1,138
Costs relating to a vacant property	43	-
Costs relating to an onerous property lease	245	-
Costs relating to the closure of the Dublin office	99	-
Fees and integration costs relating to the acquisition of a customer base	44	-
Legal and professional fees relating to Intrinsic integration	-	60
Systems integration costs	76	
Legal and professional fees relating to the acquisition of Intrinsic	-	273
Impairment of freehold property	-	17
Net effect of release of provisions relating to Azzurri	-	(121)
Other property related and legal and professional costs	6	4
	1,647	1,454

14. Business combinations

On 1 July 2018, certain customer contracts owned by Atos, were acquired at the following provisional fair value amounts. This constitutes a purchase of a trade and assets.

	£000
Purchase consideration	
Cash	2,158
Deferred consideration	4,380
	6,538
Assets and liabilities acquired	
Cash	1,977
Working capital	(52)
Deferred managed service income	(2,091
Other receivables	166
Intangible assets	
Customer relationships	7,336
Deferred tax liability on intangible assets	(1,275)
Net assets and liabilities acquired	6,061
Goodwill	477

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

Cash flows arising from the acquisition were as follows:

	£000
Purchase consideration settled in cash	
Direct acquisition costs (note 13)	(2,158)
Cash balances acquired	(44)
	1,977
	(225)

On 1 July 2018 Maintel entered into a strategic alliance with Atos and completed the acquisition of certain UK customer contracts for a total net consideration of £5.1 million. The consideration of the acquisition is payable over a period of four and a half years across a number of payment instalments and will be satisfied using the Company's existing cash resources.

Maintel acquired a customer base which has been divested in order for Atos to focus on a growth strategy through its partners and large customer accounts. Following the acquisition, Maintel has become a new channel partner of Atos.

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

A deferred tax liability of £1.3m has been recognised above which is being credited to the income statement pro rata to the amortisation of the intangibles. The Atos customer relationship related amortisation charge in 2018 is £0.5m.

Since its acquisition, the Atos acquired base has contributed revenues of £2.9m to the results of the Group.

The total consideration of £7m comprised of £2.1m, which was settled in cash during the year ending 31 December 2018. The residual monies are treated as deferred consideration payable over the period until 31 December 2022.

The net consideration of £5.1m comprises total consideration of £7m net of cash acquired (£1.9m). Purchase consideration disclosed of £6,538,000 represents the present value of the deferred consideration.

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

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

Cash flows arising from the acquisition were as follows:

	£000
Purchase consideration settled in cash	(4,906)
Direct acquisition costs (note 13)	(273)
Cash balances acquired	11
	5,168

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

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

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

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

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

In 2017, Intrinsic contributed the following to the results of the Group before management charges of £0.1m:

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

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

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

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

15. Intangible assets

	Goodwill £000	Customer relationships £000	Brands £000	Product platform £000	Software £000	Total £000
Cost						
At 1 January 2017	36,434	31,282	3,480	1,299	2,682	75,177
Acquired in the year	3,546	5,600	-	-	-	9,146
Additions	-	-	-	-	1,089	1,089
At 31 December 2017	39,980	36,882	3,480	1,299	3,771	85,412
Acquired in the year	477	7,336	-	-	-	7,813
Additions	59	-	-	34	467	560
At 31 December 2018	**40,516**	**44,218**	**3,480**	**1,333**	**4,238**	**93,785**
Amortisation and Impairment						
At 1 January 2017	317	10,606	408	108	586	12,025
Amortisation in the year	-	4,439	477	162	814	5,892
At 31 December 2017	317	15,045	885	270	1,400	17,917
Amortisation in the year	-	5,223	410	167	679	6,479
At 31 December 2018	**317**	**20,268**	**1,295**	**437**	**2,079**	**24,397**
Net book value						
At 31 December 2018	**40,199**	**23,950**	**2,185**	**896**	**2,159**	**69,389**
At 31 December 2017	39,663	21,837	2,595	1,029	2,371	67,495

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:

	2018 £000	2017 £000
Network services division	21,134	21,134
Managed service and technology division	15,758	15,222
Mobile division	3,307	3,307
	40,199	39,663

For the purposes of the impairment review of goodwill, the net present value of the projected future cash flows of the relevant cash generating unit are compared with the carrying value of the net assets for that unit; where the recoverable amount of the cash generating unit is less than the carrying amount of the net assets, an impairment loss is recognised. Projected operating margins for this purpose are based on a five-year horizon which use the approved budget amounts for year 1 and 3% rate of growth thereafter, and a pre-tax discount rate of 14% is applied to the resultant projected cash flows. For the comparative period, the same assumptions were used. The Group's impairment assessment at 31 December 2018 indicates that there is significant headroom for each unit.

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

16. Subsidiaries

The Company owns investments in subsidiaries including a number 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

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

In addition the following subsidiaries of the Company were dormant as at 31 December 2018:

Maintel Voice and Data Limited
Maintel Finance Limited
District Holdings Limited
Intrinsic Technology Limited (hived up into Maintel Europe Limited on 1 January 2018)
Warden Holdco Limited
Warden Midco Limited
Datapoint Global Services Limited
Maintel Network Solutions Limited
Datapoint Customer Solutions Limited
Maintel Mobile Limited
Azzurri Holdings Limited
Azzurri Communications Limited

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

Each subsidiary, other than Maintel International Limited, has the same registered address as the parent. The registered address of Maintel International Limited is Beaux Lane House, Mercer Street Lower, Dublin 2.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
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17. Property, plant and equipment

	Freehold building £000	Leasehold improvements £000	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2017	1,768	1,562	7,451	47	10,828
Transfer	(36)	-	(21)	-	(57)
Additions	-	6	387	-	393
On acquisition of Intrinsic	-	229	1,847	-	2,076
Disposals	-	-	(156)	-	(156)
Transfer to assets held for sale	(1,732)	-	-	-	(1,732)
Exchange differences	-	2	-	-	2
At 31 December 2017	-	1,799	9,508	47	11,354
Transfer	-	54	-	-	54
Additions	-	-	1,264	-	1,264
Disposals	-	(19)	(3,349)	-	(3,368)
At 31 December 2018	**-**	**1,834**	**7,423**	**47**	**9,304**
Depreciation					
At 1 January 2017	164	1,016	6,309	47	7,535
Transfer	26	-	(83)	-	(57)
On acquisition of Intrinsic	-	199	1,657	-	1,856
Provided in year	24	54	685	-	763
Transfer to assets held for sale	(214)	-	-	-	(214)
At 31 December 2017	-	1,269	8,568	47	9,883
Transfer	-	54	-	-	54
Fair value adjustment	-	(113)	69	-	(44)
Disposals	-	(5)	(3,342)	-	(3,347)
Provided in year	-	71	640	-	712
At 31 December 2018	**-**	**1,276**	**5,935**	**47**	**7,258**
Net book value					
At 31 December 2018	**-**	**558**	**1,488**	**-**	**2,046**
At 31 December 2017	-	530	940	-	1,471

Following a decision to market the freehold property for sale in December 2017, the freehold building was reclassified from tangible fixed assets to assets held for sale within current assets (see note 18).

18. Assets held for sale

On 1 December 2017, the board announced its intention to market the Group's freehold property in Burnley for sale. The sale was concluded on 23 February 2018.

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

	2018 £000	2017 £000
Transfer from Property, plant & equipment on 1 December 2017	-	1,518
Fair value adjustment – impairment charge through profit and loss	-	(18)
Closing value – at fair value	-	1,500

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

19. Inventories

	2018 £000	2017 (restated) £000
Maintenance stock	1,511	1,746
Stock held for resale	6,756	8,892
	8,267	10,638
Cost of inventories recognised as an expense	26,052	17,309

Provisions of £610,000 were made against the maintenance stock in 2018 (2017: £460,000).

20. Trade and other receivables

	2018 £000	2017 (restated) £000
Trade receivables	20,444	19,018
Other receivables	920	1,277
Prepayments and accrued income	12,988	13,995
	34,352	34,290

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

In adopting IFRS 9, the Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions.

Movements in contract assets and liabilities were as follows:

- Trade receivables increased from £19m in 2017 to £20.4m at the reporting date;
- Accrued income increased from £2.3m in 2017 to £5.3m at the reporting date;
- Deferred income decreased from £31.6m in 2017 to £26.7m at the reporting date; and
- Deferred costs have decreased from £6.2m in 2017 to £3.5m at the reporting date.

The corresponding adjustments for these movements represent revenues and costs recognised in the income statement in FY 2018, as a result of the completion of some large technology projects which were in progress at the FY 2017 reporting date.

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21. Trade and other payables

Current trade and other payables	2018 £000	2017 (restated) £000
Trade payables	14,797	13,491
Other tax and social security	3,885	3,505
Accruals	7,485	6,662
Other payables	3,992	3,417
Provision for dilapidations and deferred rent incentive	247	196
Deferred managed service income (note 2(c))	18,495	19,471
Other deferred income (note 2(c))	8,185	12,128
Deferred consideration in respect of business combination	639	-
	57,725	58,870

Non-current other payables	2018 £000	2017 £000
Deferred consideration in respect of business combination	3,825	-
Provision for dilapidations and deferred rent incentive	695	920
Intangible licences payables	379	561
Advanced mobile commissions	44	68
	4,943	1,549

22. Deferred taxation

	Property, plant and equipment £000	Intangible assets £000	Tax losses £000	Other £000	Total £000
Net liability at 1 January 2017	(1,823)	4,800	(949)	(8)	2,020
Liability established against intangible assets acquired during the year	-	1,073	-	-	1,073
Asset established against fixed assets acquired in the year	(160)	-	-	-	(160)
Charge / (credit) to consolidated statement of comprehensive income	403	(968)	392	-	(173)
Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses	-	-	(500)	-	(500)
Net liability at 31 December 2017	(1,580)	4,905	(1,057)	(8)	2,260
Liability established against intangible assets acquired during the year	-	1,412	-	-	1,412
Charge / (credit) to consolidated statement of comprehensive income	441	(1,232)	475	-	(316)
Adjustment to prior year to consolidated statement of comprehensive income	-	-	451	-	451
Credit to consolidated statement of comprehensive income in respect of anticipated further use of tax losses	-	-	(500)	-	(500)
Net liability at 31 December 2018	**(1,139)**	**5,085**	**(631)**	**(8)**	**3,307**

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

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

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

The asset relating to the use of tax losses is based on the directors' judgement of a range of factors influencing their anticipated use. A further undiscounted deferred tax asset of £0.3m (2017: £0.8m) relating to tax losses has not been recognised because there is insufficient evidence that the asset will be recoverable; should the Datapoint business generate higher profits than the anticipated future profits and/or an increase in corporate tax rates occur, these would increase use of these unrecognised losses.

Changes in tax rates and factors affecting the future tax charge

As described in note 9, the corporation tax rate reduced from 20% to 19% with effect from 1 April 2017 and will reduce to 17% from 1 April 2020. The deferred tax liability balance at 31 December 2018 has been calculated on the basis that the associated assets and liabilities will unwind at the rate prevailing at the time of the amortisation charge.

23. Borrowings

	2018 £000	2017 £000
Current bank overdraft – secured	3,988	-
Non-current bank loan – secured	21,295	30,707

On 8 April 2016, the Group entered into new facilities with the Royal Bank of Scotland Plc to support the acquisition of Azzurri. These consisted of a revolving credit facility totalling £36m (the "RCF") in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20m in uncommitted accordion facilities).

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

Under the terms of the facility agreement, the committed funds reduce to £31m on the three year anniversary, and to £26m on the four year anniversary from the date of signing.

The non current bank loan above is stated net of unamortised issue costs of debt of £0.2m (31 December 2017: £0.3m).

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

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis. The company was in compliance with its covenants ratios tests throughout the year ended 31 December 2018.

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

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

24. Financial instruments

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

	Financial assets measured at amortised cost	
	2018 £000	**2017 (restated) £000**
Current financial assets		
Trade receivables	20,444	19,018
Cash and cash equivalents	-	3,311
Other receivables	920	1,277
	21,364	23,606

	Financial liabilities measured at amortised cost	
	2018 £000	**2017 (restated) £000**
Non current financial liabilities		
Other payables	423	629
Secured bank loan	21,295	30,707
Deferred consideration in respect of business combination	3,825	-
	25,543	31,336
Current financial liabilities		
Trade payables	14,797	13,491
Short-term borrowings	3,988	-
Other payables	3,992	3,417
Accruals	7,485	6,662
Deferred consideration in respect of business combination	639	-
	30,901	23,570

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 £439,000 is provided at 31 December 2018 (2017: £337,000). 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 2018 owed the Group £2.1m including VAT (2017: £1.0m). 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:

	2018 £000	2017 £000
Provision at start of year	337	416
IFRS 9 alignment	108	-
Acquired provision of Intrinsic	-	70
Provision used	228	(66)
Provision reversed	(234)	(83)
Provision at end of year	439	337

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 has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. The Group's provision matrix is as follows:

	Current	< 30 days	31–60 days	> 60 days	Total
31 December 2018					
Expected credit loss % range	0%-1%	2%-5%	3%-10%	5%-30%	
Gross debtors (£000)	16,826	3,025	753	279	20,883
Expected credit loss rate (£000)	(171)	(83)	(76)	(109)	(439)
					20,444

	Current	< 30 days	31–60 days	> 60 days	Total
31 December 2017					
Expected credit loss % range	0%-1%	2%-5%	3%-10%	5%-30%	
Gross debtors (£000)	15,236	3,093	837	189	19,355
Expected credit loss rate (£000)	(91)	(146)	(50)	(50)	(337)
					19,018

Cash and cash equivalents at both 2018 and 2017 year-ends are represented by cash and short term deposits, primarily with Royal Bank of Scotland Plc and HSBC 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 £21.5m at 31 December 2018 (2017: £31.0m), together with a £5.0m overdraft facility (2017: £5.0m). The interest rate charged is related to LIBOR and bank rate respectively and will therefore change as those rates change. If interest rates had been 0.5% higher/lower during 2018, and all other variables were held constant, the Group's profit for the year would have been £192,000 (2017: £190,000) higher/lower due to the variable interest element on the loan.

The Group expects to be in a net borrowing position in the immediate future, and received £Nil interest during the year (2017: £Nil).

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
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.

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

Financial liabilities:

	0 to 6 months £000	6 to 12 months £000	2 to 5 Years £000	Total £000
Trade payables	14,797	-	-	14,797
Other payables	4,067	303	44	4,414
Accruals	6,914	192	379	7,485
Borrowings (including future interest)	449	415	22,279	23,143
Deferred consideration	64	575	3,825	4,464
At 31 December 2018	26,291	1,485	26,527	54,303

	0 to 6 months £000	6 to 12 months £000	2 to 5 Years £000	Total £000
Trade payables	13,491	-	-	13,491
Other payables	3,741	237	68	4,046
Accruals	5,961	140	561	6,662
Borrowings (including future interest)	520	520	32,379	33,419
At 31 December 2017	23,713	897	33,008	57,618

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.

25. Share capital

	Allotted, called up and fully paid			
	2018 Number	2017 Number	2018 £000	2017 £000
Ordinary shares of 1p each	14,197,059	14,197,059	142	142

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

No shares were issued in the year (2017: Nil). No shares were repurchased during the year (2017: Nil).

26. 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 2018 of 19.5p per share; this dividend is not provided for in these financial statements.

27. 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.

28. 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 42 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 3.0% 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.

29. Operating leases

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

	2018 Land and buildings £000	2018 Other £000	2017 Land and buildings £000	2017 Other £000
The total future minimum lease payments are due as follow:				
Not later than one year	1,130	239	1,110	222
Later than one year and not later than five years	3,326	224	3,297	234
Later than five years	888	-	1,479	-
	5,344	463	5,886	456

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

Notes forming part of the consolidated financial statements

for the year ended 31 December 2018
continued

The Haydock offices and part of the London premises, have been sublet, with future minimum rentals receivable under non-cancellable operating leases as set out below:

	2018 Land and buildings £000	2017 Land and buildings £000
The total future minimum lease payments are due as follow:		
Not later than one year	234	155
Later than one year and not later than five years	376	-
	610	155

30. Related party transactions

Transactions with key management personnel

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

	2018 £000	2017 £000
Short term employment benefits	1,767	1,787
Contributions to defined contribution pension schemes	68	50
	1,835	1,837

Other transactions

The Group traded in the year with A J McCaffery, transactions in 2018 and 2017 amounting in aggregate to less than £2,500. The Group traded with K Stevens in the year, transactions amounting to less than £1,000 (2017: Nil).

In 2018, the Group provided telecommunications services to Focus 4 U Limited, amounting to £2,000 (2017: £9,000) and to Zinc Media Group Plc £9,000 (2017: £9,000) companies of which N J Taylor is a director. In 2017, the Company paid fees of £7,000 (2018: £Nil) to Hopton Hill Limited, a company of which N J Taylor is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Intrinsic.

In 2017, the Company paid fees of £4,000, (2018: £Nil) to Anchusa Consulting Limited, a company of which A P Nabavi is a shareholder and director, in respect of consultancy services provided to the Company relating to the acquisition of Intrinsic.

31. Post balance sheet events

There have been no events subsequent to the reporting date which would have a material impact on the financial statements.

Company balance sheet

at 31 December 2018 - prepared under FRS101

Company number 3181729	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Investment in subsidiaries	4		54,466		54,466
Current assets					
Debtors	5	6,780		9,690	
Cash at bank and in hand		-		359	
			6,780		10,049
Creditors: amounts falling due within one year					
Creditors	6	1,203		1,222	
Short – term borrowings	7	4,569		-	
Net current assets			1,008		8,827
Creditors: amounts falling due after one year					
Borrowings	7		21,295		30,707
Total assets less current liabilities			34,179		32,586
Capital and reserves					
Called up share capital	8		142		142
Share premium			24,354		24,354
Capital redemption reserve			31		31
Profit and loss account			9,652		8,059
Shareholders' funds			34,179		32,586

The Company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit for the year of the Company, after tax and before dividends paid, was £6.0m (2017: £6.8m). The auditors' remuneration for audit services to the Company in the year was £15,000 (2017: £14,000).

The Company financial statements were approved and authorised for issue by the board on 15 March 2019 and were signed on its behalf by:

Mark Townsend
Director

The notes on pages 93 to 96 form part of these financial statements.

Reconciliation of movement in shareholders' funds

for the year ended 31 December 2018 - prepared under FRS101

	Note	Share capital £000	Share premium £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2017		142	24,354	31	5,512	30,039
Profit and total comprehensive income for year		-	-	-	6,808	6,808
Dividends paid	3	-	-	-	(4,557)	(4,557)
Grant of share options		-	-	-	296	296
At 31 December 2017		142	24,354	31	8,059	32,586
Profit and total comprehensive income for year		-	-	-	6,042	6,042
Dividends paid	3	-	-	-	(4,841)	(4,841)
Grant of share options		-	-	-	392	392
At 31 December 2018		142	24.354	31	9,652	34,179

The notes on pages 93 to 96 form part of these financial statements.

Notes forming part of the Company financial statements

at 31 December 2018

1. Accounting policies

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

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

(a) Basis of preparation

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

(b) Investments

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

(c) Taxation

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

(d) Dividends

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

(e) Disclosure exemptions adopted

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

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

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

- share based payments;
- impairment of assets.

(f) Judgements and key areas of estimation uncertainty

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

The Company assesses at each reporting date whether there is an indication that its investments may be impaired. In undertaking such an impairment review, estimates are required in determining an asset's recoverable amount; those used are shown in note 15 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.

Notes forming part of the Company financial statements

at 31 December 2018
continued

2. Employees

Staff costs, including directors, consist of:

	2018 £000	2017 £000
Wages and salaries	1,271	1,269
Social security costs	164	162
Pension costs	35	34
	1,470	1,465

	2018 Number	2017 Number
The average number of employees, including directors, during the year was:	9	9

3. Dividends paid on ordinary shares

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

4. Investment in subsidiaries

	Shares in subsidiary undertakings £000
At 1 January 2017	49,640
Additions	4,906
At 31 December 2017	54,546
Additions	-
At 31 December 2018	54,546
Provision for impairment	
At 1 January 2017, 31 December 2017 and 31 December 2018	80
Net book value	
At 31 December 2018	54,466
At 31 December 2017	54,466

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

Details of the Company's subsidiaries are shown in note 16 of the consolidated financial statements.

5. Debtors

	2018 £000	2017 £000
Amounts owed by subsidiary undertakings	6,477	9,125
Other tax and social security	8	127
Prepayments and accrued income	14	16
Corporation tax recoverable	281	422
	6,780	9,690

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

6. Creditors

	2018 £000	2017 £000
Amounts due to subsidiary undertakings	1,047	1,067
Trade creditors	41	56
Accruals and deferred income	115	99
	1,203	1,222

7. Borrowings

	2018 £000	2017 £000
Current bank overdraft – secured	4,569	-
Non-current bank loans – secured	21,295	30,707

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

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

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

The non-current bank loan above is stated net of unamortised issue costs of debt of £0.2m (31 December 2017: £0.3m).

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

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA and operating cashflow to debt service ratios are tested on a quarterly basis. The company was in compliance with its covenants ratios tests throughout the year ended 31 December 2018.

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

at 31 December 2018
continued

8. Share capital

	Allotted, called up and fully paid			
	2018 Number	**2017 Number**	**2018 £000**	**2017 £000**
Ordinary shares of 1p each	14,197,059	14,197,059	142	142

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

No shares were issued in the year (2017: Nil). No shares were repurchased during the year (2017: Nil).

9. Related party transactions

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

10. Contingent liabilities

As security on the Group's loan and overdraft facilities, the Company has entered into a cross guarantee with its subsidiary undertakings in favour of Royal Bank of Scotland Plc. At 31 December 2018 each subsidiary undertaking had a net positive cash balance.

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

Directors, Company details and advisers

Directors

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

Secretary and registered office

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Company number

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