AdEPT

Innovation through communication

AdEPT Telecom plc
Annual report and accounts 2016

Innovation through communication

We don’t treat our customers as numbers; we focus on personal service and meeting personal needs.

We’re one of the UK’s leading independent telecommunications providers, offering a complete unified communications portfolio: fixed line calls, line rental, mobile, data connectivity, hardware, managed services, WiFi, IP telephony and IT services.

Visit our website at **www.adept-telecom.co.uk** for the latest investor news and information

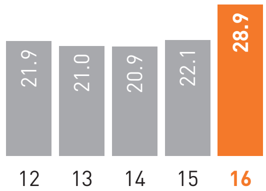
Listen to our CEO **www.adept-telecom.co.uk/investors**

Summary of our financial performance

Year ended 31 March 2016

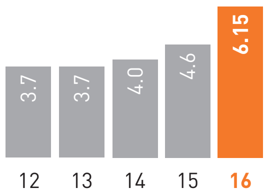
Revenue (£m)

£28.9m



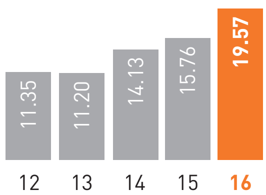
Underlying EBITDA** (£m)

£6.15m



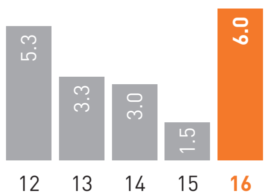
Adjusted earnings per share (p)

19.57p



Net debt* (£m)

£6.0m



2016 highlights

Financial highlights

- 13th consecutive year of increased underlying EBITDA up 34.0% to £6.15m (2015: £4.59m)
- Revenue increased by 30.8% to £28.9m (2015: £22.1m)
- Underlying EBITDA margin % increased by 0.5% to 21.3% (2015: 20.8%)
- 28.7% increase to profit before tax to £2.8m (2015: £2.1m)
- 28.1% increase to profit after tax to £2.0m (2015: £1.5m)
- 27.2% increase to basic earnings per share of 8.78p (2015: 6.90p)
- 24.2% increase to adjusted earnings per share of 19.57p (2015: 15.76p)
- 36.8% increase to dividends declared to 6.50p (interim 3.00p, final 3.50p) (2015: 4.75p)
- Year-end net debt* of £6.0m (2015: £1.5m)

Operational highlights

- Managed services accounted for 44.3% of total revenue (2015: 27.4%)
- Acquisition of entire issued share capital of Centrix Limited completed in May 2015
- Acquisition of entire issued share capital of Comms Group UK Limited completed in May 2016

* Net debt is defined as cash and cash equivalents less short-term and long-term borrowings.

** Earnings before interest, tax, depreciation, amortisation and acquisition costs.

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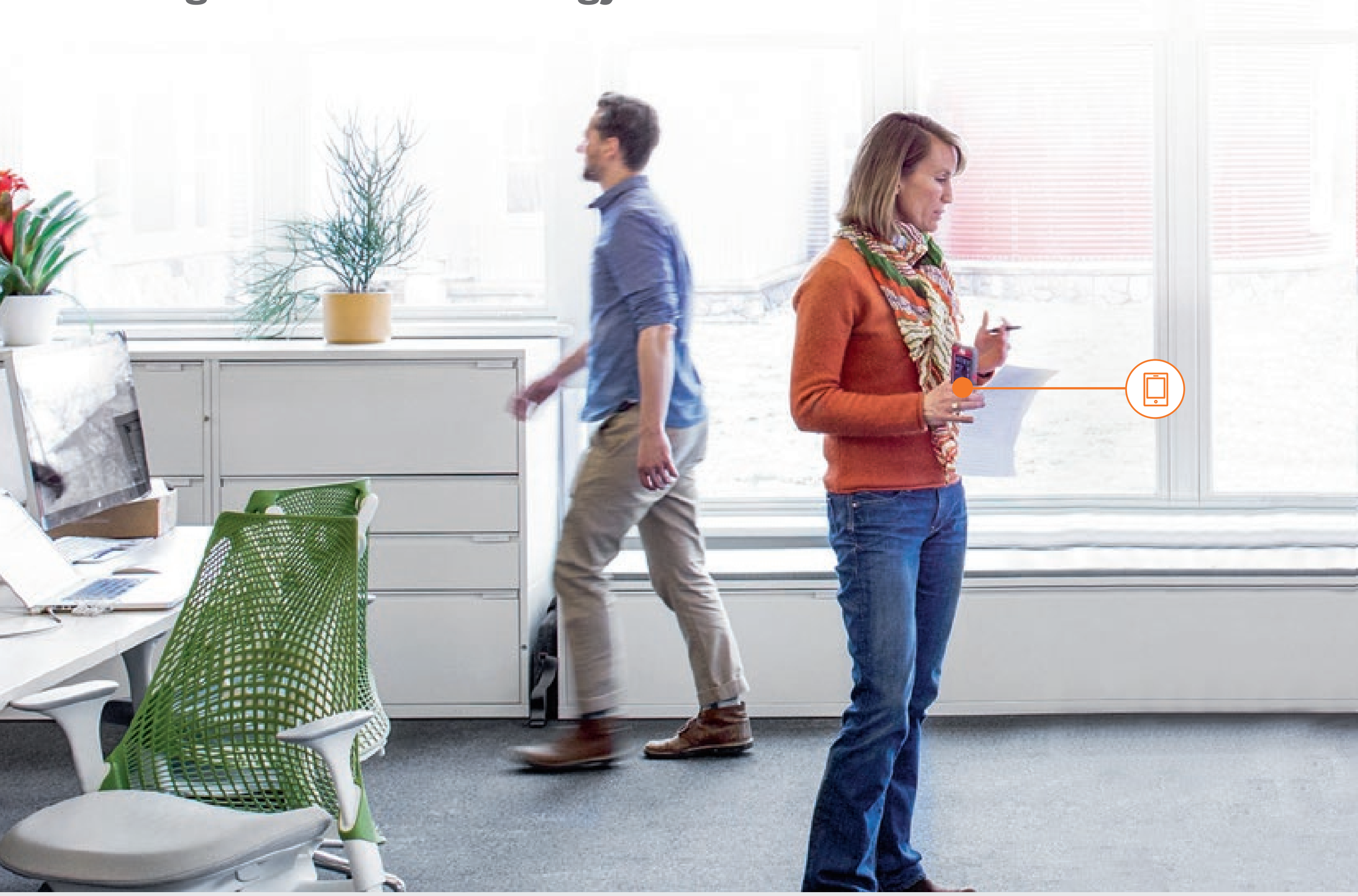
→ Our strategy and KPIs **pages 8 to 9**

AdEPT at a glance

AdEPT unites communication and innovation through the use of technology.



We bring the ideas and the solutions to your business to help your customers succeed. Put simply, we deliver products and services that help businesses to grow, be competitive, increase profitability and improve the way they communicate with customers and their employees.

AdEPT is one of the UK's leading independent telecommunications providers, offering a complete unified communications portfolio: traditional and IP telephony, data connectivity, WiFi, managed services and desktop telephony. A provider of unified communications solutions to thousands of commercial and public sector customers across the UK, including around 40 councils, AdEPT offers flexible technical and commercial options for onsite and cloud-based telephony and managed services. Our strategic relationships with every major network supplier are key to our service delivery.

Voice and IP telephony

AdEPT's voice and IP telephony solutions, in partnership with the UK's largest networks, are fully backed by a secure and reliable network infrastructure. This provides a flexible and cost effective alternative to carrying inbound and outbound voice calls. Providing both traditional calls and line rental and SIP, AdEPT is ideally placed to handle a fully managed migration to next generation IP telephony.

Data connectivity

AdEPT provides fast, low-contention, higher quality broadband, leased lines connections and MPLS networks using 21st Century Network technology. As a truly network-independent provider, AdEPT offers a complete range of best of breed data connectivity services across the UK. Solutions are available from 2Mb broadband to 100Gb optical spectrum services at a surprisingly low cost.

Super-fast connectivity

AdEPT is one of a small number of companies approved under the Ja.net framework to supply super-fast connectivity. Under the Ja.net framework, AdEPT is the chosen provider of super-fast data connectivity solutions to a large number of UK universities and colleges, supplying a complete range of super-fast data connectivity solutions up to 100Gb optical spectrum services.

WiFi

AdEPT designs and implements wireless networking for any size network supporting multiple devices including notebooks, mobiles, tablets, printers and more. AdEPT can also set up corporate and guest connectivity using high end managed wireless access points. AdEPT is a leading provider of WiFi solutions to business centres and other multi-tenant buildings across the UK.

Unified communications

AdEPT offers a full suite of real-time communication services such as instant messaging, presence information, voice, fixed-mobile convergence, desktop and data sharing with non-real-time communication services such as unified messaging. AdEPT provides a set of products that delivers a consistent unified user interface and user experience across multiple devices and media types, from desktop phones to handheld mobile devices.

Desktop telephony

AdEPT offers a complete range of Avaya Aura and IP Office, Cisco and Microsoft products backed up with award-winning helpdesk engineer services with a team of highly trained product specialists ready to assist customers with network solution architecture and diagnostics. AdEPT has a fully product trained engineer helpdesk available 24x7 and onsite engineers specialising in equipment installations or onsite maintenance.

Chairman's statement

Delivering another strong trading performance, and increased value for shareholders.

Summary

The Group has improved its underlying EBITDA by 34% through direct sales, the acquisition of Centrix Limited, management of wholesale supply contracts and continued operational efficiency.

- **The rate of transition of the Group to a managed service provider has increased; managed services accounted for 44% of total revenue**
- **Dividends increased by 37% year on year to 6.50p per share as a result of continued strong free cash flow generation**
- **Net borrowings increased to £6.0m at March 2016 which is a reflection of the initial consideration paid for Centrix Limited**
- **In May 2016 the Company acquired Comms Group UK Limited, a specialist provider of unified communications and IT services**

Roger Wilson
Non-executive Chairman

Review of operations

The Group has continued to increase underlying EBITDA and maintain strong free cash flow generation, which have been used to fund the progressive dividend policy and earnings-enhancing acquisitions.

AdEPT has been highly successful in gaining further traction in the public sector space, currently supplying telecoms services and unified communications into 38 councils (2015: 25 councils). We continue to concentrate on winning frameworks rather than individual tenders and, in July 2015, the Company was awarded a framework agreement with the Crown Commercial Service under the RM1045 Network Services framework, which has resulted in a number of new public sector contracts, not all of which are fully reflected in these results.

The Group's continued strong cash generation resulted in £4.5m of free cash flow after interest. This, combined with the drawdown of debt from the new £15m revolving credit facility put in place with Barclays in April 2015, was used to fund the transformational acquisition of the entire issued share capital of Centrix Limited ('Centrix') in May 2015 and the continued progressive dividend policy.

> "The Group has continued to increase underlying EBITDA and maintain strong free cash flow generation, which have been used to fund the progressive dividend policy and earnings-enhancing acquisitions."

Centrix is a well established UK-based specialist provider of complex unified communications, Avaya IP telephony, hosted IP solutions and managed services. Centrix offers its clients the delivery of complex unified communications and managed service solutions, which is an increasing requisite for AdEPT's existing and targeted enterprise and public sector customer base. The acquisition of Centrix, combined with organic sales, has increased the rate of transition of the Group towards managed services, which accounted for 44.3% of total revenue in the year ended 31 March 2016. Following the acquisition, the Group is now telecoms partner for 20 award-winning private hospitals and specialist clinics across London and Manchester and has a strong presence in business centres, supplying telecoms for eight out of 15 London-based business centres which have opened in the last 24 months. The team at Centrix has provided an excellent fit with AdEPT and has been successful in jointly working on unified communications contracts, particularly in the public sector, with five new contracts secured with councils post-acquisition. The post-acquisition performance of Centrix has delivered growth and therefore we anticipate the contingent deferred consideration to be at the top end of the range at around £3.0m. Testament to the success of the acquisition, the Group is pleased to announce that the Group's largest customer, which was a long-standing Centrix customer, has extended its contract for unified communications to the end of December 2019.

The issue of new equity during the year to directors increasing their shareholdings following the exercise of share options resulted in a cash inflow of £0.1m, which was used by the Company to repurchase 35,000 of its own shares during the year ended 31 March 2016 at an average price of 257.7p, pursuant to the stock exchange announcement issued on 18 December 2014. The Board believes that the share repurchase scheme can improve stock liquidity and increase value to shareholders and therefore the directors will continue to determine if further repurchases remain in the shareholders' best interests.

In line with its progressive policy, AdEPT has increased the dividend declared year-on-year by 36.8%, declaring a final dividend of 3.50p per ordinary share (2015: 2.50p), making total dividends declared in respect of the year ended 31 March 2016 of 6.50p per ordinary share (2015: 4.75p).

Employees

The improved profitability and free cash flow generation this year was made possible by the continued hard work and focus of all employees at AdEPT. As a Group we are immensely proud of the track record we have created over the last 13 years and, on behalf of the Board, I would like to take this opportunity to thank all of our employees for their continued hard work.

Director changes and rebranding

The Group announces that after more than 13 years with AdEPT, its Chief Operating Officer, Amanda Woodruffe, has decided to retire and will therefore stand down from the Board with immediate effect. After a handover period, Amanda will leave the Group during summer 2016 with our best wishes for the future. The Board would like to take this opportunity to thank Amanda for her valuable contribution to AdEPT.

The Group is pleased to announce that it has appointed Richard Burbage, former director of Centrix, to the Board as unified communications director, with immediate effect. Richard Burbage was the original founder of Centrix and one of the three owners who sold the business to AdEPT. He has over 20 years' experience running the fleet business and is recognised as an industry expert in unified communications technologies. Richard will be responsible for overseeing the Centrix operation and developing the unified communications strategy, with particular focus on the continued development of the public and healthcare sectors.

Following the completion of the contingent deferred consideration period for Centrix, and as part of Richard's introduction to the Group, Centrix has been rebranded in line with AdEPT, with effect from 1 June 2016. This provides the Group and its employees with a single brand identity, which should enable the Group to leverage benefits, particularly in relation to its public sector framework agreements.

Outlook

The excellent result for this year was delivered through a combination of strategic acquisition and organic contract wins, improving margins on customer contracts and maintaining high levels of operational efficiency. The Board is confident that continued strong cash conversion of operating profit will support its intention of a progressive dividend policy.

The focus for the coming year remains on developing organic sales through leveraging AdEPT's approved supplier status on the various public sector telecom frameworks, maintaining profitability and cash flow conversion, which will be used to reduce net borrowings and/or fund suitable earnings-enhancing acquisitions.

Roger Wilson
Non-executive Chairman
4 July 2016

How we work

We have a robust and sustainable business model that engages our expertise to drive growth and generate profit. The Board believes that AdEPT operates a resilient business model with excellent cash generation and has a strong customer proposition which will present further opportunities in the coming year.

Our markets

The market in which we operate

AdEPT is one of the UK's leading independent communications integrators, specialising in multi-site and multi-product solutions.

The UK market for business telephony is highly fragmented with more than 900 providers. AdEPT was originally established as a traditional fixed line service provider; however, the Company is successfully transitioning to a complete communications integrator providing a full suite of data connectivity, WiFi, IP telephony and managed services.

Emerging markets

Next generation services continue to evolve both technically and commercially.

The take-up of IP telephony services continues to be relatively small scale compared to the volume of existing traditional fixed line telephony, partly due to regulatory pressures on fixed line pricing. However, IP telephony is likely to increasingly displace legacy voice infrastructures. AdEPT is ideally positioned to handle the transition from traditional to next generation services by being able to provide a single bill solution for both technologies.

Key trends

The market for voice revenues continues to be under volume pressure in contrast to data revenue.

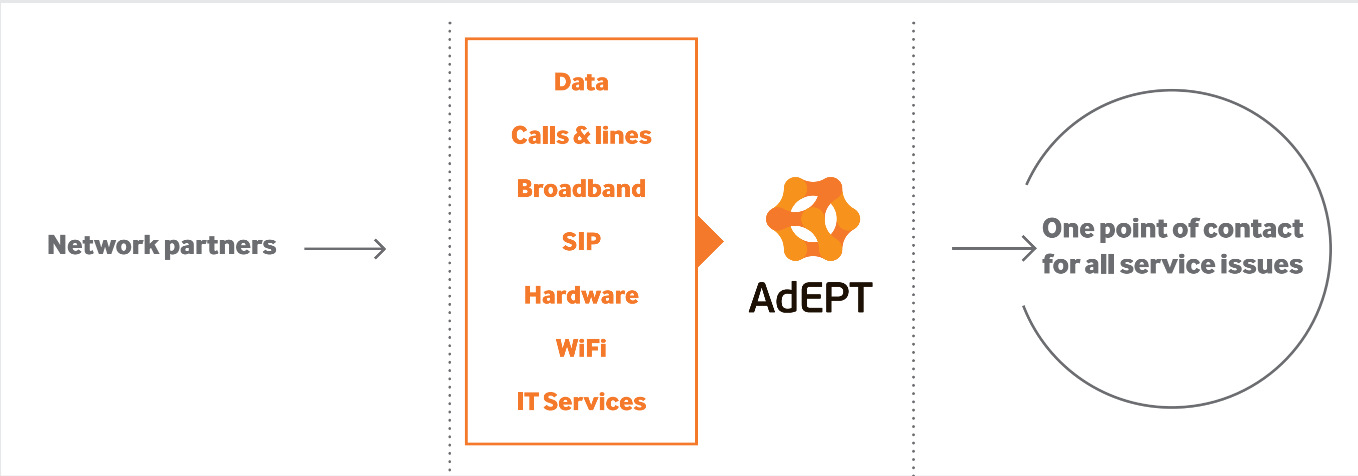
The continued deployment of 21CN network infrastructure and products combined with the ever increasing demand for faster data connectivity and more capacity continue to drive business telephony requirements. The increasing availability of super-fast broadband services has continued, with services now available to around 90% of homes and businesses in the UK. AdEPT has continued to broaden its product offering of data connectivity, WiFi, IP telephony and managed services to ensure that it can offer all of the latest technology. The increased uptake of 'cloud' or network-based services for business contact centres is expected to continue as businesses utilise business telephony to achieve their own growth objectives.

Outlook

Following the recent acquisition of Centrix Limited, a leading UK-based specialist provider of complex unified communications, the Board considers that there are an increased number of opportunities for AdEPT as the product portfolio of the Group has been extended to include services such as managed services, WiFi and Avaya IP telephony.

In addition, AdEPT continues to maintain its approved supplier status on a number of public sector frameworks which will be leveraged to increase the Company's presence as a supplier to the public and healthcare sectors. This is to complement the continued consolidation of the fragmented UK telephony market through the strategic acquisition of other telecom businesses and customer bases.

Our business model



Network partners

AdEPT has established relationships with all of the major UK network operators and communication suppliers, working with tier-1 carrier partners to develop products and solutions which meet the ever changing needs of customers.

AdEPT's focus with its carrier partners is to develop and provide cost effective solutions with enhanced features and resilience. AdEPT selects its carrier partners on the basis of technical and financial stability, in order to manage the supply risk associated with a business critical supply.

AdEPT solution design and service wrap

AdEPT combines multi-product solutions from a number of carrier partners to provide bespoke solutions tailored to meet the specific requirements of customers.

AdEPT provides a single invoice solution for customers combined with award-winning customer service and support available at a lower spend level than other larger telecommunications businesses. AdEPT provides dedicated account management for customers spending as little as £400 per month on telecommunications.

UK client base

AdEPT provides competitively priced communications solutions for all sizes of UK-based clients spread across a wide range of business sectors.

AdEPT and its sales channels work with its customer base to develop appropriate communications solutions. AdEPT is widely recognised as a multi-site multi-product specialist, with more than 1,000 multi-site customers taking a range of products. AdEPT is increasingly focused on Premier, Public Sector and Healthcare customers who can benefit from AdEPT's ability to provide a full unified communication solution.

Our strategy and KPIs

Our strategy focuses on four key areas, enabling the Company to expand its product range, investing in customer retention, increasing public sector presence by leveraging frameworks and identifying strategic acquisition opportunities.

Key areas

Products

AdEPT was originally established as a fixed line telecom provider but is diversifying its product range to become one of the UK's leading independent communications integrators.

Our aims

Development and expansion of our product range. To constantly monitor product development to ensure that we can offer all of the latest and best of breed products.

Our achievements in the year

- Added new products to the portfolio, such as 40Gb and 100Gb OSA, and successfully sold these into the customer base.
- Our 'cloud' and network-based next generation services have been rolled out to more customers.

Our solutions

- Data services will be a key area of expansion as the demand for faster data connectivity speeds continues. Continue to evaluate new connectivity products and introduce them to the portfolio.

Customers

Our business is focused on providing high levels of customer service. Our award-winning UK-based customer service teams have all the necessary skills to give our customers peace of mind and a service they can rely on.

Our aims

Investment in customer retention activities. Improve customer retention by maintaining the highest standards of customer service combined with a highly competitive product offering.

Our achievements in the year

- Continued investment in retention strategies to retain customers.
- Won new larger customers and retaining existing clients through providing dedicated account management.

Our solutions

- Maintaining high levels of customer service will remain a critical element of our business model.

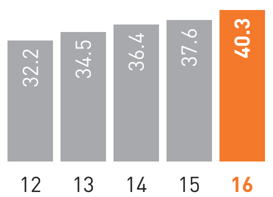
Our results

Financial performance

Gross margin (%)

40.3%

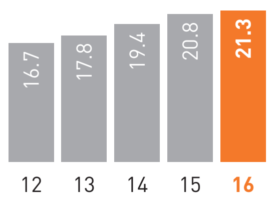
(2015: 37.6%)



EBITDA margin (%)

21.3%

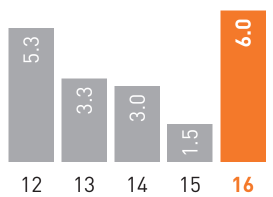
(2015: 20.8%)



Net debt (£m)

£6.0m

(2015: £1.5m)



Frameworks

AdEPT is focused upon increasing its public and healthcare sector presence and helping those customers achieve the budget reductions and cost initiatives they have been set.

Our aims

Utilising approved supplier status. Further develop the existing public and healthcare sector relationships and forge new partnerships with public and healthcare sector customers.

Our achievements in the year

- Achieved approved supplier status on the Crown Commercial Service RM1045 public sector framework agreement.
- Leveraged our position on the frameworks to bring in a large number of public and healthcare sector customers.

Our solutions

- Continue to review the development of public sector frameworks and ensure that AdEPT remains in a position to be able to take advantage of opportunities as they arise.

Acquisitions

The Board continues to identify and evaluate strategic acquisitions that are considered to meet the criteria of complementing existing business whilst adding value to our shareholders.

Our aims

Identify strategic acquisitions to add shareholder value. The operational and financial platform in place has been developed to provide further efficiencies from increased scale.

Our achievements in the year

- Acquired and integrated 21 telecoms businesses and customer bases to date, including Centrix during the year.
- Careful planning and rigorous operational and financial due diligence was undertaken to minimise integration and execution risk.

Our solutions

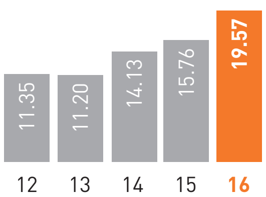
- The executive director team and the Board will continued to monitor all potential acquisition targets that meet the criteria of complementing the existing business and adding shareholder value.

Non-financial performance

Adjusted earnings per share (p)

19.57p

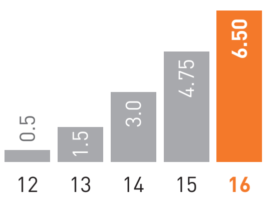
(2015: 15.76p)



Dividend per share (p)

6.50p

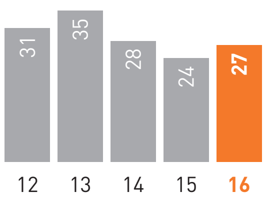
(2015: 4.75p)



Customer credit collection (days)

27 days

(2015: 24 days)



Strategic report

Focus on underlying profitability combined with strategic acquisition and high free cash flow conversion has delivered increased EBITDA. This has supported an increase to dividends.

Summary

- **EBITDA increase of 34% to £6.15m was the thirteenth consecutive increase since AdEPT's inception in 2003**
- **Revenue generated from managed services represented 44% of total revenue, which is an increase of £6.75m year-on-year**
- **Strong free cash flow, before interest, of £4.5m combined with the Group's enlarged debt facility has been used to fund the acquisition of Centrix Limited**
- **Adjusted earnings per share increased by 24% to 19.57p per share giving 3.0x dividend cover at March 2016**
- **Total dividends during the year increased by 37% to 6.50p per share**

John Swaite
Finance director

Principal activities and review of business

The principal activity of the Group is the provision of voice and data communication services to both domestic and business customers. A review of the business is contained in the Chairman's statement on pages 4 and 5 and the highlights are summarised in the strategic report on pages 10 to 13.

Revenue

During the year AdEPT has continued its transition from a traditional fixed line service provider towards a managed services provider. Total revenue generated from managed services represented 44.3% of total revenue in the year ended 31 March 2016 (2015: 27.4%).

Total revenue increased by 30.9% to £28.9m (2015: £22.1m):

- Managed services product revenues increased by £6.8m to £12.8m (2015: £6.0m). This reflects the impact of the contribution from the acquisition of Centrix in May 2015 combined with an increased level of organic contract wins and a lower relative churn rate. AdEPT has continued to make progress in expanding the number of circuits and connections from new customer additions and through cross-selling into the existing customer base. As the demand for faster data connectivity speeds continues AdEPT has seen further customer orders for 1–10Gb services.
- Traditional fixed line revenues were flat at £16.1m (2015: £16.0m), which is largely a reflection of the relative contribution from the Centrix acquisition which has been partially offset by the substitution impact of new technologies. The Group's reliance on fluctuating call revenues continues to reduce, with call revenue providing only 19.4% of total revenue in the year ended 31 March 2016 (2015: 25.3%).

> "During the year AdEPT has continued its transition from a traditional fixed line service provider towards a managed services provider. Total revenue generated from managed services represented 44% of total revenue."

The proportion of AdEPT revenue being generated from recurring products and services remains high at 91.7% of total revenue. The acquisition of Centrix extended the AdEPT product set to include hardware supply and installation services, which, by their nature, are project based and not fixed recurring revenue streams; however, a high proportion of installations are further products and services being supplied to the existing customer base.

AdEPT continued to be highly successful in gaining further traction in the public sector space during the last year through leveraging its approved status on various frameworks; this contract success is included in the 2016 revenue figures. AdEPT currently supplies a range of telecom services and unified communications for 38 councils. In July 2015 AdEPT was awarded a framework agreement with the Crown Commercial Service under the RM1045 Network Services framework. This is in addition to AdEPT's existing framework agreements with Ja.net, under which AdEPT is one of only a small number of companies approved to sell data connectivity to UK colleges and universities, and the ESPO framework, as the sole recommended supplier to public service bodies and registered charities for calls, lines, broadband, super-fast broadband (fibre) and SIP trunks.

The Group is continuing to focus its organic sales efforts on adding and retaining larger customers whilst complementing this with an acquisitive strategy. AdEPT's largest 1,400 customers (spending £5,000 per annum or more) account for approximately 63% of total revenue (2015: 1,000 customers, 50% of total revenue), with the top ten customers accounting for 26.1% of total revenue (2015: 12.9%).

Gross margin

Gross margin percentage has improved during the year.

Gross margins for fixed line services have been maintained at an absolute and percent. level through close monitoring of customer profitability and supply chain management of wholesale contracts.

Gross margins for managed services, such as installations, support and maintenance are higher than fixed line; this is a reflection of the headcount costs of supporting the project installations and maintenance being included within operating expenditure.

Summary of three-year financial performance

	Year ended March				
	2016 £'000	Year-on-year %	2015 £'000	Year-on-year %	2014 £'000
Revenue	**28,881**	30.8%	22,066	5.8%	20,852
Gross margin	**11,634**	40.2%	8,298	9.4%	7,584
EBITDA	**6,153**	34.0%	4,591	13.5%	4,043
Net debt	**5,982**		1,539		2,962

Underlying EBITDA

Underlying EBITDA is defined as operating profit after adding back depreciation, amortisation and impairment charges and share-based payment charges. The Group uses EBITDA as a measure of performance in line with the telecommunications sector's general approach to relative performance measurement. As the Group operates a capex-light model, the Board considers that EBITDA is the best indication of the underlying cash generation of the business. Below is a reconciliation of EBITDA to the reported profit before tax:

	2016 £'000	2015 £'000
Underlying EBITDA	**6,153**	4,591
Acquisition fees	**(389)**	—
Share option charges	**2**	(3)
Depreciation	**(188)**	(49)
Amortisation	**(2,216)**	(2,169)
Interest	**(612)**	(233)
Profit before tax	**2,750**	2,137

Underlying EBITDA has increased for the 13th consecutive year since AdEPT's inception in 2003. The Group has focused on the underlying profitability of customers and revenue streams combined with tight overhead control, industry-leading debt collection and wholesale supply chain negotiation.

Finance costs

Total interest costs have increased to £0.61m (2015: £0.23m), arising largely from the increase in net borrowings to fund the acquisition of Centrix in May 2015. Also included within interest costs is a £0.20m charge in relation to the discounted cash flow impact of the deferred consideration payable in relation to the Centrix acquisition. Increases to interest costs have been partially mitigated through treasury management of surplus cash balances to minimise the amount of drawn funds.

Profit before tax

This year the Group has recorded a £0.61m improvement to profit before tax with a reported £2.75m (2015: £2.14m). The improvement to profit before tax arises from the £1.56m EBITDA improvement, which has been absorbed by the £0.38m increase in finance costs and the acquisition costs of £0.39m in relation to Centrix.

Strategic report continued

Profit after tax and earnings per share

The profit for the year, after taxation, amounted to £1.96m (2015: £1.53m). Basic earnings per share increased by 27.2% to 8.78p (2015: 6.90p). Adjusted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation and acquisition costs (see Note 25), increased by 24.2% to 19.57p per share (2015: 15.76p).

During the year ended 31 March 2016 the Company continued with a small share buyback of its own ordinary shares in order to improve stock liquidity and increase value to shareholders. The Company repurchased 35,000 shares (2015: 122,203 shares) at an average price of 257.7p (2015: 148.9p); the cost of these repurchases was met from the cash proceeds of share options exercised by the executive directors during the year. All shares repurchased by the Company were cancelled prior to the year end. The directors will continue to monitor the level of cash required for the business and determine if further repurchases remain in the shareholders' best interests.

Dividends and dividend per share

On the back of strong cash flow generation AdEPT announced an interim dividend of 3.00p per share, which was paid to shareholders on 8 April 2016. The Board of AdEPT Telecom announced on 5 April 2016 that, subject to shareholder approval at the annual general meeting later in the year, it is declaring a final dividend of 3.50p per ordinary share (2015: 2.50p). This dividend is expected to be paid on or around 7 October 2016 to shareholders on the register at 23 September 2016.

Total dividends approved and declared during the year ended 31 March 2016 of 6.50p per ordinary share represent a 36.8% increase year-on-year (2015: 4.75p). The Board constantly monitors shareholder value and is confident that the continued strong cash generation will support a progressive dividend policy.

Cash flow

The Group benefits from an excellent cash-generating operating model. Low capital expenditure results in EBITDA turning into cash. Reported EBITDA turned into net cash from operating activities after income tax and interest is 86.6% (2015: 98.2%). The Group has continued to manage its credit risk in the current economic climate and the collections of trade receivables have been reasonably stable during the year with customer collection periods of 27 days (2015: 24 days).

Cash interest paid has increased during the year to £0.32m (2015: £0.17m), which arises from the increase in net borrowings to fund the acquisition of Centrix in May 2015.

Cash outflows of £7.1m have been incurred in the year ended 31 March 2016 in relation to acquisitions. The contingent consideration in respect of the acquisition of the entire issued share capital Bluecherry Telecom Limited was paid in April 2015 with no further amounts due. The initial cash consideration of £6.9m (net of cash acquired) was paid in May 2015 in relation to the acquisition of the entire issued share capital of Centrix Limited.

Dividends paid during the year ended 31 March 2016 absorbed £1.1m of cash (2015: £0.7m). This increase over the prior period arises from the continued application of the progressive dividend policy.

Cash inflows of £0.1m were generated from the issue of new equity during the year. Three of the executive director team increased their shareholdings in the Company following the exercise of share options. Pursuant to the stock exchange announcement during December 2014, these funds were used by the Company to make strategic purchases of its own shares.

There was an increase to cash and cash equivalents during the year of £4.1m. This arises from a net increase in the drawn element of the Barclays revolving credit facility at the year end which was used to fund the initial consideration for the acquisition of Comms Group UK Limited. The Group will continue to apply its treasury management policies to minimise the cost of finance whilst retaining flexibility to meet its growth strategies.

Capital expenditure

The Group operates an asset light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 1.8% of revenue (2015: 0.5%). Capital expenditure has increased during the year, largely due to an essential upgrade to the customer billing system combined with the fit out costs of the new Centrix office and head office refurbishment costs.

Business combinations

The strategy of the Group is to concentrate organic sales efforts on attracting larger customers, particularly in the public and healthcare sector. Rather than operate a telesales operation aimed at acquiring smaller business customers organically, we instead use our free cash generation to acquire customer bases from other telecommunications suppliers in the industry.

On 1 May 2015 the Company acquired the entire issued share capital of Centrix Limited, a well established UK-based provider of complex unified communications, Avaya IP telephony, hosted IP solutions and managed services. Total consideration was an initial £6.9m plus the value of the cash balance of Centrix at completion (approximately £1.9m) with contingent consideration of up to £3.5m dependent upon the performance of Centrix post-acquisition. Acquisition related costs of £0.4m have been recognised as an expense in the statement of comprehensive income for the period ended 31 March 2016.

A fair value of £10.4m in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the year ended 31 March 2016. Further details on the acquisition during the year are described in Note 27 to the financial statements.

Post-year end, on 1 May 2016, the Company acquired the entire issued share capital of Comms Group UK Limited for an initial consideration of £3.5m plus the value of the cash balance at completion (approximately £1.1m), payable in cash. Further consideration of between £Nil and £3.5m will be payable, also in cash, dependent upon performance of Comms Group UK Limited post-acquisition.

Further details on the acquisition post-balance sheet date are described in Note 28 to the financial statements.

"Total dividends approved and declared during the year ended 31 March 2016 of 6.50p per ordinary share represent a 37% increase year-on-year."

Net debt and bank facilities

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow and therefore support net borrowings. As a result of the Group's focus on underlying profitability and cash conversion, free cash flow after bank interest paid of £4.5m was generated during the year ended 31 March 2016 (2015: £4.3m). Income taxes paid during the year increased from £0.3m to £0.9m. Lower charges in earlier periods are a reflection of corporation tax deductions in relation to share option exercises.

The free cash flow plus borrowing drawdowns of £8.4m have been used to fund £7.2m acquisition consideration, £1.1m dividends paid and £0.7m of capital expenditure on tangible and intangible assets. Net cash inflows of £0.1m have arisen from the issue of new equity following the exercise of share options by executive directors which has been used to fund the share repurchases during the year. Net debt, which comprises cash balances and bank borrowings, has increased to £6.0m at the year end (2015: £1.5m) as a result of the acquisition consideration outflows, mainly in relation to Centrix.

On 22 April 2015 the Group signed a new five-year £15m revolving credit facility agreement with Barclays Bank plc. This longer-term facility replaced the previous £5m revolving credit facility, which had an 18 month term remaining, and the term loan which was due for repayment by September 2015. The new revolving credit facility offers the Group significantly greater funding flexibility and is on longer and improved commercial terms when compared to the facility which it replaces. The new revolving credit facility bears interest at 2.30% over LIBOR on drawn funds and is repayable in full on the final repayment date of 21 April 2020.

The Company's available banking facilities are described in Note 26 to the financial statements.

Key performance indicators (KPIs)

The KPIs outlined below are intended to provide useful information when interpreting the accounts.

	Fixed line services £'000	Managed services £'000	Total £'000
Year ended 31 March 2016			
Revenue	**16,089**	**12,792**	**28,881**
Gross profit	**6,194**	**5,440**	**11,634**
Gross margin %	**38.5%**	**42.5%**	**40.3%**
Year ended 31 March 2015			
Revenue	16,026	6,040	22,066
Gross profit	6,160	2,138	8,298
Gross margin %	38.4%	35.4%	37.6%

Principal risks and uncertainties

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

Liquidity risk

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

Credit risk

The Group extends credit to customers of various durations depending on customer creditworthiness and industry custom and practice for the product or service. In the event that a customer proves unable to meet payments when they fall due, the Group will suffer adverse consequences. To manage this, the Group continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, 67% of our customer receipts are by monthly direct debit. The risk is further reduced by the customer base being spread across all industry and service sectors. The top ten customers account for approximately 13% of revenues.

Competitor risk

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

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

Acquisition integration execution

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

John Swaite

John Swaite
Finance director
4 July 2016

Corporate social responsibility

AdEPT is committed to operating in a socially and environmentally responsible manner and structures its policies and practice accordingly.

AdEPT is committed to operating in a socially and environmentally responsible manner and structures its policies and practice accordingly.

Employee involvement

The directors believe that the employees of the Group are one of its most important assets and the continued and sustained development of the Group relies on its ability to retain and attract employees of a high standard. AdEPT is proud to have a high number of long-serving employees with more than five years' service.

The AdEPT equal opportunities policy ensures that all job applicants and employees are treated fairly and without favour or prejudice. We are committed to applying this policy throughout all areas of employment, recruitment and selection, training, development and promotion.

Employees are regularly informed of matters concerning their interest and the financial factors affecting the Group. The Group uses management forums and employee newsletters to communicate matters as well as team and individual meetings.

Environmental commitment

AdEPT is committed to promoting sustainability. Concern for the environment and promoting a broader sustainability agenda are integral to AdEPT's professional activities and the management of the organisation. We aim to follow and to promote good sustainability practice, to carry out our operations in a way which manages and minimises any adverse environmental impacts from our activities and to help our clients and partners to do the same.

Our sustainability policy is based upon the principles of continual and effective improvement on environmental performance. This policy is communicated to our employees, associates, suppliers, clients and other parties to ensure that all parties are fully aware of our sustainability policy and are committed to implementing and improving it. The sustainability policy is reviewed annually, and we are committed to continually striving to improve our sustainability performance within the guidelines of our organisation.

The Group encourages its staff to use public transport to attend meetings and site visits whenever possible and minimise sole occupancy travel whenever practical. The Group is committed to encouraging the use of teleconferencing or video conferencing, and efficient timing of meetings to avoid unnecessary journeys. In addition the Group supports alternative working arrangements, including home working.

AdEPT encourages the reuse or recycling of office waste, including paper, packaging, computer supplies and redundant equipment. Wherever possible AdEPT ensures that waste materials are disposed of in an environmentally safe manner and in accordance with regulations. AdEPT is committed to reducing the energy consumptions of office equipment by purchasing energy efficient equipment and by good housekeeping.

Charity partnership

Demelza Children's Hospice – Corporate Fundraiser

Demelza is a children's hospice charity in the south-east of the UK, providing vital care to families across East Sussex, Kent and South-east London. Demelza's bespoke support is free of charge to families and is available 24 hours a day, 365 days a year.

It costs £9m a year to run Demelza's hospice services and only a small percentage of the money comes from the government. The majority of money comes from voluntary income and fundraising.

AdEPT Telecom is proud to be a corporate fundraiser for Demelza Children's Hospice (the only children's hospice in the south-east of England).

Fund raising initiatives which AdEPT has been proud to support include:

- **Bricks and Water Appeal**
  A total of £1.5m was raised by this appeal to build new bedrooms and hydro pools for the terminally ill children.
- **Play 'n' Sailing Appeal**
  This appeal was to raise £130,000 to replace the outdoor play area which was worn out. Demelza considered that the playground is probably one of the most important facilities in a children's hospice.

Demelza
Hospice Care for Children
Registered Charity No. 1039651

Board of directors

● **Audit committee member**

● **Remuneration committee member**

Roger Wilson ●●

Non-executive Chairman (BA Hons, DMS)

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

Ian Fishwick

Chief executive (MBA, ACMA)

Ian has been a chief executive or managing director in the telecoms industry for more than 20 years and is the original founder of AdEPT. In that time he has completed more than 30 telecoms mergers and acquisitions. Prior to founding AdEPT Telecom in February 2003, from 1983 to 1995 Ian rose through the ranks at Marconi Secure Systems, including two years as financial controller and five years as managing director. From 1996 to 2000 Ian was a managing director at Telewest Communications, managing Telewest North West, Telewest London and South East and Cable London. Ian was managing director of World Access (UK) Limited from 2000 to 2001.

John Swaite

Finance director (BA Hons, FCA)

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

Dusko Lukic ●●

Non-executive director

Dusko has worked for over 20 years as an institutional stockbroker covering UK and Continental European equity markets with City firms Wood Mackenzie, Salomon Brothers, Schroder Securities and Cazenove. Whilst at Cazenove, Dusko was the director responsible for pan-European equity sales to German institutions. In 2005 Dusko founded Draganfly Investments Ltd, an AIM-quoted investment company, and in 2006 was the co-founder of Intrinsic Capital LLP, a smaller company investment boutique. Dusko is Chairman of the Company's remuneration and audit committees.

Richard Burbage

Unified communications director

Richard Burbage was promoted to the Board in July 2016. He began his career in telecoms working with financial institutions and offshore oil and gas companies supplying telex and facsimile machines. In the early 90s Richard established his first business which, after nine successful years, was sold to the industry leader, Genesis Telecommunications plc. After a few years with Genesis Richard left to establish a new non-competitive business, Centrix Limited, which after 15 years' continued growth and having become one of the most profitable businesses in the sector was acquired by AdEPT in 2015. Richard has over 25 years' experience in telecoms and continues to grow the fleet division with increasing success in cloud, hosting, IP telephony and unified communications.

Directors' report

For the year ended March 2016

The directors present their report and the financial statements for the year ended 31 March 2016.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

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

Corporate governance

Although this is not a statement of compliance, the Board recognises the importance of sound corporate governance and intends to comply insofar as practicable with the Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies and is committed to ensuring that effective corporate governance procedures are in place and are appropriate for a public company of its size and complexity.

The Board

Executive directors	Non-executive directors
Ian Fishwick	Roger Wilson
John Swaite	Dusko Lukic
Richard Burbage *(appointed 5 July 2016)*	Christopher Fishwick *(resigned 25 September 2015)*
Amanda Woodruffe *(resigned 5 July 2016)*	
Joe Murphy *(resigned 19 November 2015)*	

Remuneration committee

The remuneration committee is responsible for the policy for the remuneration of the executive directors, Company secretary and the Operating Board.

Members
Dusko Lukic (Chairman)
Roger Wilson

Audit committee

The audit committee has responsibility for planning and reviewing the Group's interim and preliminary reports and accounts.

Members
Dusko Lukic (Chairman)
Roger Wilson

The Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies recommend that an AIM company should have at least two independent non-executive directors. The Board considers that one of the existing non-executive directors, Roger Wilson, is not independent for the purposes of these guidelines due to their level of shareholdings in the Company and, therefore, that Dusko Lukic is the only independent non-executive director.

The Board

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

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

Board appointments

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

Audit committee

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

Remuneration committee

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

Meeting attendance

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

	Management Board meetings	Board meetings	Audit committee	Remuneration committee	Other meetings	**Total attendance**
R Wilson	1	6	1	3	1	**12**
D Lukic	1	6	1	3	1	**12**
I Fishwick	46	6	—	1	1	**54**
A Woodruffe	46	4	—	—	—	**50**
J Swaite	46	6	1*	—	1	**54**

* By invitation.

Relations with shareholders

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

Internal control and risk assessment

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

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

Research and development activities

The Group continually monitors new product development and actively works with its tier-1 network carrier partners on the development and adoption of new products and services. In addition, the Group undertakes regular review and development of its in-house billing and customer management systems to ensure that it can continue to provide high levels of customer service and support.

Financial risk management

The Group policy in relation to financial and credit risk management is included within the strategic report and Note 26 to the financial statements.

Share repurchase scheme

In December 2014 the Company began its share buyback scheme. The scheme was entered into in order to improve stock liquidity and increase value to shareholders. In arriving at the level of cash available to be returned to shareholders, the Board took into account the levels of funding remaining in the Group to enable it to meet its working capital requirements. The Company repurchased 35,000 shares (2015: 122,203 shares) at an average price of 257.7p (2015: 148.9p); the cost of these repurchases was met from the cash proceeds of share options exercised by the executive directors during the year. All share repurchased by the Company were cancelled prior to the year end. The directors will continue to monitor the level of cash required for the business and determine if further repurchases remain in the shareholders' best interests.

Directors' report continued

For the year ended 31 March 2016

Dividends

The details of dividends approved and declared during the year are included within the strategic report.

Provision of information to auditors

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

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

Going concern

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors regard the going concern basis as remaining appropriate as they have assessed the Group's financial performance and position. Based upon this, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Employee involvement

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

The Group has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £6,707 (2015: £2,968).

Disabled employees

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

Events after the balance sheet date

Post-year end, on 1 May 2016, the Company acquired the entire issued share capital of Comms Group UK Limited. Further details on the acquisition post-balance sheet date are described in Note 28 to the financial statements.

Strategic report

Information previously shown in the directors' report, which includes the business review, future developments and principal risks and uncertainties, is now shown in the strategic report and Chairman's statement in accordance with Section 414c(ii) of the Companies Act 2006.

Auditors

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

By order of the Board

Ian Fishwick
Director
4 July 2016

Independent auditors' report

To the shareholders of AdEPT Telecom plc

We have audited the financial statements of AdEPT Telecom plc for the year ended 31 March 2016 which comprise the Group statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes numbered 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report and any other surround information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 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 IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Mark Anderson
Senior Statutory Auditor
For and on behalf of Crowe Clark Whitehill LLP
Statutory auditor
Tunbridge Wells
4 July 2016

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue	2	**28,881**	22,066
Cost of sales		**(17,247)**	(13,768)
Gross profit		**11,634**	8,298
Administrative expenses		**(8,272)**	(5,928)
Operating profit		**3,362**	2,370
Total operating profit – analysed:			
Operating profit before acquisition costs, share-based payments, depreciation and amortisation		**6,153**	4,591
Share-based payments		**2**	(3)
Depreciation of tangible fixed assets		**(188)**	(49)
Acquisition fees		**(389)**	—
Amortisation of intangible fixed assets		**(2,216)**	(2,169)
Total operating profit		**3,362**	2,370
Finance costs	7	**(612)**	(233)
Profit before income tax		**2,750**	2,137
Income tax expense	10	**(786)**	(603)
Profit for the year		**1,965**	1,534
Other comprehensive income		**—**	—
Total comprehensive income		**1,965**	1,534

	Note	2016	2015
Earnings per share			
Basic earnings	25	**8.78p**	6.90p

All amounts relate to continuing operations. The notes on pages 27 to 46 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Assets			
Non-current assets			
Intangible assets	12	**23,263**	14,874
Property, plant and equipment	14	**524**	82
Deferred income tax	15	**56**	145
		23,843	15,101
Current assets			
Inventories	16	**48**	3
Trade and other receivables	17	**4,360**	2,198
Cash and cash equivalents		**6,166**	2,095
		10,574	4,296
Total assets		**34,417**	19,397
Current liabilities			
Trade and other payables	18	**8,753**	3,165
Income tax		**335**	324
Short-term borrowings		**—**	538
		9,088	4,027
Non-current liabilities			
Long-term borrowings	19	**12,148**	3,095
Total liabilities		**21,236**	7,122
Net assets		**13,181**	12,275
Equity attributable to equity holders			
Share capital	20	**2,248**	2,230
Share premium		**429**	335
Retained earnings		**10,504**	9,710
Total equity		**13,181**	12,275

The financial statements were approved and authorised for issue by the Board on 4 July 2016 and signed on its behalf.

Ian Fishwick
Director

The notes on pages 27 to 46 form part of these financial statements.

Registered number 4682431

Company statement of financial position

As at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Assets			
Non-current assets			
Intangible assets	12	**13,255**	14,874
Investments	13	**11,846**	—
Property, plant and equipment	14	**204**	82
Deferred income tax	15	**106**	145
		25,411	15,101
Current assets			
Inventories	16	**1**	3
Trade and other receivables	17	**1,885**	2,198
Cash and cash equivalents		**5,489**	2,095
		7,375	4,296
Total assets		**32,786**	19,397
Current liabilities			
Trade and other payables	18	**6,195**	3,165
Income tax		**90**	324
Short-term borrowings		**—**	538
		6,285	4,027
Non-current liabilities			
Long-term borrowings	19	**12,148**	3,095
Total liabilities		**18,433**	7,122
Net assets		**14,353**	12,275
Equity attributable to equity holders			
Share capital	20	**2,248**	2,230
Share premium		**429**	335
Retained earnings		**11,676**	9,710
Total equity		**14,353**	12,275

The financial statements were approved and authorised for issue by the Board on 4 July 2016 and signed on its behalf.

Ian Fishwick
Director

The notes on pages 27 to 46 form part of these financial statements.

Registered number 4682431

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2014	2,194	189	72	—	8,248	10,703
Profit for the year	—	—	—	—	1,534	1,534
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	1,534	1,534
Deferred tax asset adjustment	—	—	—	—	23	23
Share-based payments	—	—	(14)	—	17	3
Issue of share capital	48	146	—	—	—	194
Shares repurchased and cancelled	(12)	—	—	12	(182)	(182)
Equity at 1 April 2015	2,230	335	58	12	9,640	12,275
Profit for the year	—	—	—	—	1,965	1,965
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	1,965	1,965
Deferred tax asset adjustment	—	—	—	—	(23)	(23)
Dividends	—	—	—	—	(1,059)	(1,059)
Share-based payments	—	—	(2)	—	—	(2)
Issue of share capital	22	94	—	—	—	116
Shares repurchased and cancelled	(4)	—	—	4	(90)	(90)
Equity at 31 March 2016	**2,248**	**429**	**56**	**16**	**10,432**	**13,181**

The notes on pages 27 to 46 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 March 2016

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2014	2,194	189	72	—	8,248	10,703
Profit for the year	—	—	—	—	1,534	1,534
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	1,534	1,534
Deferred tax asset adjustment	—	—	—	—	23	23
Share-based payments	—	—	(14)	—	17	3
Issue of share capital	48	146	—	—	—	194
Shares repurchased and cancelled	(12)	—	—	12	(182)	(182)
Equity at 1 April 2015	2,230	335	58	12	9,640	12,275
Profit for the year	—	—	—	—	643	643
Dividends received from subsidiary	—	—	—	—	2,493	2,493
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	3,136	3,136
Deferred tax asset adjustment	—	—	—	—	(23)	(23)
Dividends	—	—	—	—	(1,059)	(1,059)
Share-based payments	—	—	(2)	—	—	(2)
Issue of share capital	22	94	—	—	—	116
Shares repurchased and cancelled	(4)	—	—	4	(90)	(90)
Equity at 31 March 2016	**2,248**	**429**	**56**	**16**	**11,604**	**14,353**

The notes on pages 27 to 46 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit before income tax	**2,750**	2,137
Depreciation and amortisation	**2,403**	2,218
Profit on sale of fixed asset	**(2)**	—
Share-based payments	**(2)**	3
Net finance costs	**612**	233
Operating cash flows before movements in working capital	**5,761**	4,591
Decrease in inventories	**14**	—
(Increase)/decrease in trade and other receivables	**(803)**	76
Increase in trade and other payables	**666**	153
Cash generated from operations	**5,638**	4,820
Income taxes paid	**(855)**	(315)
Net cash from operating activities	**4,783**	4,505
Cash flows from investing activities		
Interest paid	**(318)**	(175)
Acquisition of subsidiaries net of cash acquired	**(7,058)**	(2,152)
Purchase of intangible assets	**(194)**	(11)
Sale of property, plant and equipment	**14**	—
Purchase of property, plant and equipment	**(532)**	(52)
Net cash used in investing activities	**(8,088)**	(2,390)
Cash flows from financing activities		
Dividends paid	**(1,059)**	(660)
Share capital issued	**114**	194
Payments made for share repurchases	**(90)**	(182)
Increase in bank loan	**18,400**	2,250
Repayment of borrowings	**(9,988)**	(5,399)
Net cash from financing activities	**7,377**	(3,797)
Net increase/(decrease) in cash and cash equivalents	**4,072**	(1,682)
Cash and cash equivalents at beginning of year	**2,094**	3,777
Cash and cash equivalents at end of year	**6,166**	2,095
Cash and cash equivalents		
Cash at bank and in hand	**6,166**	2,095
Bank overdrafts	**—**	—
Cash and cash equivalents	**6,166**	2,095

The notes on pages 27 to 46 form part of these financial statements.

Company statement of cash flows

For the year ended 31 March 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit before income tax	3,485	2,137
Depreciation and amortisation	1,872	2,218
Profit on sale of fixed asset	(2)	—
Share-based payments	(2)	3
Net finance costs	612	233
Operating cash flows before movements in working capital	5,965	4,591
Decrease in inventories	3	—
Decrease in trade and other receivables	217	76
Increase in trade and other payables	(208)	153
Cash generated from operations	6,393	4,820
Income taxes paid	(566)	(315)
Net cash from operating activities	5,827	4,505
Cash flows from investing activities		
Interest paid	(315)	(175)
Acquisition of subsidiaries net of cash acquired	(9,121)	(2,152)
Purchase of intangible assets	(194)	(11)
Sale of property, plant and equipment	14	—
Purchase of property, plant and equipment	(193)	(52)
Net cash used in investing activities	(9,809)	(2,390)
Cash flows from financing activities		
Dividends paid	(1,059)	(660)
Share capital issued	114	194
Payments made for share repurchases	(90)	(182)
Increase in bank loan	18,400	2,250
Repayment of borrowings	(9,988)	(5,399)
Net cash from financing activities	7,377	(3,797)
Net increase/(decrease) in cash and cash equivalents	3,395	(1,682)
Cash and cash equivalents at beginning of year	2,095	3,777
Cash and cash equivalents at end of year	5,490	2,095
Cash and cash equivalents		
Cash at bank and in hand	5,490	2,095
Bank overdrafts	—	—
Cash and cash equivalents	5,490	2,095

The notes on pages 27 to 46 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2016

1. Nature of operations and general information

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

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

2. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable IFRS as adopted by the EU.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The Group's available banking facilities are described in Note 26 to the financial statements. The Group has adequate financing arrangements which can be utilised by the Group as required. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

At the date of authorisation of these financial statements, the directors have considered the standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and IFRS 15 "Revenue from Contracts with Customers", IFRS 16 "Leases" and IFRS 9 "Financial Instruments" were considered to be relevant. It is not clear whether the application of IFRS 15, IFRS 16 and IFRS 9, once effective, will have a material impact on the results of the Group. Adoption of the other standards and interpretations are not expected to have a material impact on the results of the Group. Application of these standards may result in some changes in presentation of information within the Group's financial statements.

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

Segmental reporting

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

Revenue

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

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

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

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

Revenue from the sale of goods is recognised when the goods have been fully installed. Income from maintenance services is recognised over the term of the agreement.

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

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

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

In accordance with IFRS 3 "Business Combinations", an intangible asset acquired in a business combination is recognised at fair value at the acquisition date.

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

The intangible asset 'customer base' is amortised to the income statement over its estimated useful economic life on a straight line basis.

Notes to the financial statements continued

For the year ended 31 March 2016

2. Accounting policies continued

Other intangible assets

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

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

Investments

Shareholdings in subsidiaries are valued at cost less provision for permanent impairment.

Property, plant and equipment and depreciation

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

Short-term leasehold improvements	– The shorter of five years and the remaining period of the lease straight line
Fixtures and fittings	– Three years straight line
Office equipment	– Three years straight line
Motor vehicles	– Four years straight line
Rental equipment at customer premises	– Contract agreement period straight line

Lease accounting

The Group leases equipment under operating leases to non-related parties. Leases of equipment where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. The underlying assets are recognised in tangible fixed assets. Rental income from operating leases (net of any incentives given to the leasees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Inventories

Inventories are valued at the lower of cost and net realisable value after making allowance for any obsolete or slow moving items. Net realisable value is reviewed regularly to ensure accurate carrying values. Cost is determined on a first-in, first-out basis and includes transportation and handling costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Pensions

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

Income tax

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

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

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

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

2. Accounting policies continued

Share-based payments

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

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

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

Non-recurring items and acquisition costs

Material and non-recurring items of income and expense are separated out in the income statement. Examples of items which may give rise to disclosure as non-recurring items include costs of acquisition, restructuring and reorganisation of existing businesses, integration of newly acquired businesses and asset impairments.

Trade and other receivables

Trade receivables, which generally have 14–60 days terms, are initially recognised at fair value and subsequently held at amortised cost. A provision for impairment of trade receivables is established when it is considered probable that the Group may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The provision is the difference between the asset's carrying amount and the original invoice amount less bad debts written off. The carrying amount of the asset is reduced through the use of the provision and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off are credited in the income statement.

Cash and cash equivalents

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

Trade payables

Trade payables are stated at their nominal value, recognised initially at fair value and subsequently valued at amortised cost.

Dividends

Dividend distributions to the Company's shareholders are recognised when payment has been made to shareholders.

Share buybacks

The Company has returned surplus cash to shareholders through a limited share buyback scheme pursuant to the authority given to it at the annual general meeting. Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable. The Company will continue to monitor the level of cash required for the business and determine if further repurchases remain in the shareholders' best interests.

Financial instruments

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

Capital

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 19 and 26, cash and cash equivalents, and equity attributable to equity holders, comprising issued capital, reserves and retained earnings.

Borrowings and borrowing costs

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

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

Notes to the financial statements continued

For the year ended 31 March 2016

3. Critical accounting estimates and judgements

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

Key sources of estimation and uncertainty are:

Measuring the fair value of customer bases on acquisition

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

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

Churn rates are based upon actual historical churn rates of the revenue stream for each customer base acquired. The discount rate used to discount the cash flows is based upon the Group's weighted average cost of capital (WACC) applicable at the date of acquisition. Gross margins are based upon actual margins achieved by the customer bases in the period prior to acquisition.

Estimating the useful life of customer bases

The main estimates used to conduct the impairment review are:

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

The average useful economic life of all the customer bases has been estimated at 14 years (2015: 17 years) with a range of seven to 30 years.

Estimating churn, discount rate and gross margins

Churn rates ranging between (9.5%) and 22.7% are based upon actual historical churn rates of the revenue stream for each customer base.

The discount rate of 8.0% (2015: 5.7%) used to discount the cash flows is based upon the Group's weighted average cost of capital (WACC), which is the recommended discount rate suggested by International Financial Reporting Standards and is a calculated figure using actual input variables where available and applying estimates for those which are not, such as the equity market premium.

Gross margins of 44.2% are based upon actual margins achieved by the customer bases in the current and previous years. The actual outcomes have been materially equivalent.

Measuring the fair value of contingent consideration

The fair value of contingent deferred consideration is determined by reference to the growth rate for the gross margin of the acquired business and applying the contingent deferred consideration matrix as specified in the asset or share purchase agreement and discounting the net present value of the future cash flows. The range of contingent consideration in the current period was £0 to £3.5m, further details are included in Note 27.

Subsequent impairment of customer bases

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

The calculations are sensitive to any movement in the discount rate, margin or churn rate and would therefore result in an impairment charge to the income statement. A 1% change to the discount rate, gross margin and churn rate would result in additional impairment charges of £36,000, £13,000 and £Nil respectively.

More details, including carrying values, are included in Note 12.

Allowance for impairment of receivables

Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain. Further information on the receivables allowance account is given in Note 17.

4. Segmental information

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

The chief operating decision maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services (being calls and line rental services) and managed services (which are data connectivity, hardware services, IP telephony, support and maintenance services), which are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and underlying EBITDA.

	Year ended 31 March 2016				Year ended 31 March 2015			
£'000	Fixed line services	Managed services	Central costs	Total	Fixed line services	Managed services	Central costs	Total
Revenue	16,089	12,792	—	28,881	16,026	6,040	—	22,066
Gross profit	6,194	5,440	—	11,634	6,160	2,138	—	8,298
Gross margin %	38.5%	42.5%	—	40.3%	38.4%	35.4%	—	37.6%
Underlying EBITDA	3,512	2,641	—	6,153	3,411	1,180	—	4,591
Underlying EBITDA %	21.8%	20.6%	—	21.3%	21.3%	19.5%	—	20.8%
Amortisation	(2,216)	—	—	(2,216)	(2,169)	—	—	(2,169)
Depreciation	—	—	(188)	(188)	—	—	(49)	(49)
Acquisition costs	—	—	(389)	(389)	—	—	—	—
Share-based payments	—	—	2	2	—	—	(3)	(3)
Operating profit/(loss)	1,296	2,641	(575)	3,362	1,242	1,180	(52)	2,370
Finance costs	—	—	(612)	(612)	—	—	(233)	(233)
Income tax	—	—	(786)	(786)	—	—	(603)	(603)
Profit/(loss) after tax	1,296	2,641	(1,973)	1,964	1,242	1,180	(888)	1,534

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

Transactions with the largest customer of the Group are less than 10% of total turnover and do not require disclosure for either 2015 or 2016.

5. Operating profit

The operating profit is stated after charging:

	2016 £'000	2015 £'000
Amortisation of customer base, billing system and licence	2,216	2,169
Depreciation of tangible fixed assets:		
– owned by the Group	188	49
Share option (credit)/expense	(2)	3
Minimum operating lease payments:		
– land and buildings	537	171
– motor vehicles and other equipment	103	42

Notes to the financial statements continued

For the year ended 31 March 2016

6. Auditors' remuneration

	2016 £'000	2015 £'000
Fees payable to the Group's auditors for the audit of the Group's annual financial statements	33	33
Fees payable to the Group's auditors and their associates in respect of:		
– audit of subsidiaries	10	—
– other services relating to taxation	8	6

7. Finance costs

	2016 £'000	2015 £'000
On bank loans and overdrafts	315	174
Bank fees	95	59
Finance cost on contingent consideration	202	—
	612	233

8. Employee costs

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

	2016 £'000	2015 £'000
Wages and salaries	3,120	1,884
Social security costs	366	243
Share option expense	(2)	3
Other pension costs	251	22
	3,735	2,152

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

	2016 Number	2015 Number
Non-executive directors	2	3
Administrative staff	60	43
	62	46

Key management personnel

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

9. Directors' emoluments

	Short-term employee benefits			Post-employment benefits		
	Salary and fees paid or receivable £	Bonus paid or receivable £	Other benefits £	Pension contributions £	**Total 2016 £**	Total 2015 £
R Wilson	43,743	—	7,614	366	**51,723**	50,036
C Fishwick	8,750	—	—	8	**8,758**	15,000
D Lukic	21,258	—	7,190	150	**28,598**	27,495
I Fishwick	209,796	92,500	7,547	15,367	**325,210**	288,541
A Woodruffe	141,020	33,788	1,828	366	**177,002**	170,070
J Murphy	81,826	788	9,869	244	**92,727**	132,720
J Swaite	91,875	33,788	7,373	366	**133,402**	115,694
Total	**598,268**	**160,864**	**41,421**	**16,867**	**817,420**	**799,556**

During the year retirement benefits were accruing to one director (2015: one) in respect of money purchase pension schemes. The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £15,367 (2015: £15,648). During the year there was one share option transaction in respect of the highest paid director (2015: no share option transactions).

The share option credit recognised during the year in respect of the directors was £2,259 (2015: charge of £2,789). The aggregate amount of gains made by directors on the exercise of share options was £483,323 (2015: £405,400). There were three directors (2015: three) who exercised share options during the year.

Directors' share options

	Option scheme	Options at 1 April 2015	Awarded in year	Options exercised	Options lapsed	**Options at 31 March 2016**	Option price	Date of grant
A Woodruffe	EMI	171,708	—	(171,708)	—	**—**	52p	13 November 2012
J Swaite	EMI	25,000	—	(25,000)	—	**—**	52p	13 November 2012
J Murphy	EMI	25,000	—	(25,000)	—	**—**	52p	13 November 2012
I Fishwick	EMI	—	129,440	—	—	**129,440**	222p	1 March 2016
J Swaite	EMI	—	64,720	—	—	**64,720**	222p	1 March 2016
R Wilson	EMI	—	29,660	—	—	**29,660**	222p	1 March 2016
D Lukic	Unapproved	—	16,180	—	—	**16,180**	222p	1 March 2016

Notes to the financial statements continued

For the year ended 31 March 2016

10. Income tax expense

	2016 £'000	2015 £'000
Current tax		
UK corporation tax on profit for the year	725	637
Adjustments in respect of prior periods	(5)	3
Total current tax	720	640
Deferred tax		
Origination and reversal of timing differences:		
– Fixed assets	39	3
– Provision for receivables	—	(8)
– Share options	21	(25)
Adjustments in respect of prior periods	3	(7)
Total deferred tax (see Note 15)	66	(37)
Total income tax expense	786	603

Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 20% (2015: 21%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2016 £'000	2015 £'000
Profit before income tax	2,750	2,137
Tax rate	20%	21%
Expected tax charge	550	449
Expenses not deductible for tax purposes	99	33
Amortisation not deductible for tax purposes	243	253
Adjustments to tax charge in respect of prior periods	(2)	(5)
Short-term timing differences	24	—
Share options	(32)	(32)
Share option relief	(96)	(95)
Actual tax expense net	786	603

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

11. Dividends

On 30 September 2015 the directors approved an interim dividend of 3.00p per ordinary share (2015: 2.25p), which was paid to shareholders on 8 April 2016. On 30 March 2016 the directors declared a final dividend, subject to shareholder approval at the 2016 annual general meeting, of 3.50p per ordinary share (2015: 2.50p). Total dividends declared in respect of the year ended 31 March 2016 will absorb £1,461,467 of shareholders' funds in future periods (2015: total £1,054,001).

On 7 April 2015 the Company paid dividends of £502,368 in relation to the interim dividend declared in September 2014. On 6 October 2015 the Company paid dividends of £557,435 in relation to the final dividend declared in March 2015. Total dividends paid in the year ended 31 March 2016 absorbed £1,059,803 of cash (2015: £329,094).

12. Intangible fixed assets

Group

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2014	26	1,040	30,060	31,126
Additions	—	40	1,985	2,025
At 1 April 2015	26	1,080	32,045	33,151
Additions	—	194	10,411	10,605
At 31 March 2016	**26**	**1,274**	**42,456**	**43,756**
Amortisation				
At 1 April 2014	22	972	15,114	16,108
Charge for the year	3	56	2,110	2,169
Impairment charge	—	—	—	—
At 1 April 2015	25	1,028	17,224	18,277
Charge for the year	1	84	2,086	2,171
Impairment charge	—	—	45	45
At 31 March 2016	**26**	**1,112**	**19,355**	**20,493**
Net book value				
At 31 March 2016	**—**	**162**	**23,101**	**23,263**
At 31 March 2015	1	52	14,821	14,874

Included within the Group's intangible assets is £10,411,576 in relation to the Centrix Limited customer base (2015: £Nil), with an estimated useful life of 30 years.

Notes to the financial statements continued

For the year ended 31 March 2016

12. Intangible fixed assets continued

Company

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2014	26	1,040	30,060	31,126
Additions	—	40	1,985	2,025
At 1 April 2015	26	1,080	32,045	33,151
Additions	—	194	—	194
At 31 March 2016	**26**	**1,274**	**32,045**	**33,345**
Amortisation				
At 1 April 2014	22	972	15,114	16,108
Charge for the year	3	56	2,110	2,169
Impairment charge	—	—	—	—
At 1 April 2015	25	1,028	17,224	18,277
Charge for the year	1	84	1,683	1,768
Impairment charge	—	—	45	45
At 31 March 2016	**26**	**1,112**	**18,952**	**20,090**
Net book value				
At 31 March 2016	**—**	**162**	**13,093**	**13,255**
At 31 March 2015	1	52	14,821	14,874

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the final reporting date of 31 March 2016 the net present value of future cash flows of certain cash-generating units was below the carrying value and an impairment charge of £45,041 (2015: £Nil) has been recorded.

13. Investments in subsidiaries

Company

	Company £'000	Total £'000
Cost		
At 1 April 2014 and 1 April 2015	—	—
Additions	11,846	11,846
At 31 March 2016	**11,846**	**11,846**
Amounts written off		
At 1 April 2014 and 1 April 2015	—	—
Written off during the year	—	—
At 31 March 2016	**—**	**—**
Net book value		
At 31 March 2016	**11,846**	**11,846**
At 31 March 2015	—	—

Details of the principal subsidiaries of the Company are included in Note 29 to the financial statements.

14. Property, plant and equipment

Group

	Motor vehicles £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost					
At 1 April 2014	25	7	137	277	446
Additions	—	—	2	50	52
At 1 April 2015	25	7	139	327	498
Additions	105	—	199	337	641
Disposals	25	—	—	116	141
At 31 March 2016	**105**	**7**	**338**	**548**	**998**
Depreciation					
At 1 April 2014	3	7	131	226	367
Charge for the year	6	—	4	39	49
At 1 April 2015	9	7	135	265	416
Charge for the year	9	—	17	162	188
Disposals	14	—	—	116	130
At 31 March 2016	**4**	**7**	**152**	**311**	**474**
Net book value					
At 31 March 2016	**101**	**—**	**186**	**237**	**524**
At 31 March 2015	16	—	4	62	82

Company

	Motor vehicles £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost					
At 1 April 2014	25	7	137	277	446
Additions	—	—	2	50	52
At 1 April 2015	25	7	139	327	498
Additions	105	—	69	19	193
Disposals	25	—	—	—	25
At 31 March 2016	**105**	**7**	**208**	**346**	**666**
Depreciation					
At 1 April 2014	3	7	131	226	367
Charge for the year	6	—	4	39	49
At 1 April 2015	9	7	135	265	416
Charge for the year	9	—	11	40	60
Disposals	14	—	—	—	14
At 31 March 2016	**4**	**7**	**146**	**305**	**462**
Net book value					
At 31 March 2016	**101**	**—**	**62**	**41**	**204**
At 31 March 2015	16	—	4	62	82

Notes to the financial statements continued

For the year ended 31 March 2016

15. Deferred taxation

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
At 1 April 2015	145	145	115	115
Income statement credit/(charge)	(66)	(16)	7	7
Movement in deferred tax on share options	(23)	(23)	23	23
At 31 March 2016	56	106	145	145

The deferred tax asset is made up as follows:

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Capital allowances	(43)	7	26	26
Short-term timing differences – provision for receivables	17	17	17	17
Share options	82	82	102	102
	56	106	145	145

16. Inventories

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Consumables	48	1	3	3

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

17. Trade and other receivables

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Trade receivables	2,584	1,517	1,767	1,767
Other receivables	7	7	12	12
Prepayments and accrued income	1,769	361	419	419
	4,360	1,885	2,198	2,198

As at 31 March 2016, trade receivables of £128,811 (2015: £131,280) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired is as follows:

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
31–60 days	282	145	111	111
61–90 days	159	8	3	3
Over 90 days	65	2	2	2
	506	155	116	116

17. Trade and other receivables continued

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

	Group £'000	Company £'000
At 1 April 2014	113	113
Receivables written off during the year as uncollectable	(99)	(99)
Provision for receivables impairment for the year	117	117
At 1 April 2015	131	131
Receivables written off during the year as uncollectable	(3)	(3)
At 31 March 2016	**128**	**128**

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

18. Trade and other payables

	2016 Group £'000	**2016 Company £'000**	2015 Group £'000	2015 Company £'000
Trade payables	**2,757**	**1,339**	1,567	1,567
Other taxes and social security costs	**665**	**489**	538	538
Other payables	**72**	**45**	48	48
Amounts owed to Group undertakings	**—**	**474**	—	—
Accruals and deferred income	**2,302**	**891**	812	812
Contingent consideration	**2,957**	**2,957**	200	200
	8,753	**6,195**	3,165	3,165

Included within accruals is £2,956,571 (2015: £200,000) being the fair value of the discounted contingent consideration in respect of acquisitions in the current year. The fair value of the contingent consideration liability was initially determined by reference to the forecast growth rate for the customer base and applying the contingent consideration matrix as specified in the share purchase agreement.

19. Long-term borrowings

	2016 Group £'000	**2016 Company £'000**	2015 Group £'000	2015 Company £'000
Between one and two years	**—**	**—**	3,095	3,095
Between two and five years	**12,148**	**12,148**	—	—
More than five years	**—**	**—**	—	—
Bank loans	**12,148**	**12,148**	3,095	3,095

The bank loan is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures and fixed plant and machinery. Details of the interest rates applicable to the loans are included in Note 26.

Included within bank loans are arrangement fees amounting to £132,000 (2015: £48,973) which are being released over the term of the loan in accordance with IAS 39.

Notes to the financial statements continued

For the year ended 31 March 2016

20. Share capital

	2016 £'000	2015 £'000
Authorised		
65,000,000 ordinary shares of 10p each	**6,500**	6,500
Allotted, called up and fully paid		
22,484,108 (2015: 22,297,400) ordinary shares of 10p each	**2,248**	2,230

Movement in shares in issue

	31 March 2016	31 March 2015
Ordinary shares of 10p each	**22,297,400**	21,939,603
Issued under share option schemes	**221,708**	480,000
Shares repurchased and cancelled	**(35,000)**	(122,203)
	22,484,108	22,297,400

Share buyback scheme
On 18 December 2014 the Company announced that it intended to commence a limited share buyback of its own ordinary shares. During the year ended 31 March 2016 the Company repurchased 35,000 shares (2015: 122,203) at an average price of 257.7p (2015: 148.9p). All shares repurchased by the Company were cancelled prior to the year end.

Share options
At 31 March 2016, the following options and warrants over the shares of AdEPT were in issue:

	2016		2015	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at 1 April	**1,440,759**	**20p**	1,955,668	27p
Granted during the year	**240,000**	**222p**	32,143	126p
Granted/(forfeited) during the year	**10,789**	**11p**	(67,052)	73p
Exercised during the year	**(221,708)**	**52p**	(480,000)	41p
Outstanding at 31 March	**1,469,840**	**49p**	1,440,759	20p

The weighted average share price at date of exercise for options exercised during the year was 270.0p (2015: 126.6p).

The weighted average remaining contractual life of share options and warrants at 31 March 2016 was three years.

Employee share option schemes have a vesting period of three years and are settled through new equity issues in return for cash consideration and the maximum term of share options is ten years.

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

	2016	2015
Risk-free interest rate	**2.69%**	2.69%
Expected volatility	**22.0%**	3.0%
Expected option life (years)	**3.0**	3.0
Expected dividend yield	**2.9%**	2.0%
Weighted average share price	**222p**	126p
Weighted average exercise price	**222p**	140p
Weighted average fair value of options granted	**30p**	0p

20. Share capital continued

Share options continued

The expected average volatility was determined by reviewing historical fluctuations in the share price prior to the grant date of each share instrument. An expected take-up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 2.9%; this is based upon the past dividend yield of AdEPT Telecom plc and in accordance with the guidance in IFRS 2.

	Exercise price (p)	Expected option life (years)	31 March 2016	31 March 2015
21 January 2009	11	3.0	**1,197,697**	1,186,908
13 November 2012	52	3.0	**—**	221,708
23 August 2013	126	3.0	**32,143**	32,143
1 March 2016	222	3.0	**240,000**	—
			1,469,840	1,440,759

During the year ended 31 March 2009 a warrant was issued to Barclays Bank plc over 5% of the diluted share capital of the Company. As at 31 March 2016 this entitled the holder to 1,197,697 shares. The weighted average fair value of this equity instrument of £53,278 has been determined using the Black-Scholes-Merton Pricing Model, applying the same assumptions as those applied to the other equity instruments issued during the period due to Barclays Bank plc being unable to provide a sufficiently reliable estimate of the value of services provided in relation to these warrants.

The mid-market price of the ordinary shares on 31 March 2016 was 229p and the range during the year was 147.5p.

21. Pension commitments

At 31 March 2016 there were no pension commitments (2015: £Nil).

22. Operating lease commitments

At 31 March 2016 the lease commitments were as follows:

Group

	Land and buildings		Other	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Within one year	**266**	165	**53**	45
Between two and five years	**520**	357	**51**	28

Company

	Land and buildings		Other	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Within one year	**173**	165	**39**	45
Between two and five years	**187**	357	**42**	28

Land and buildings

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

Other

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

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

Notes to the financial statements continued

For the year ended 31 March 2016

23. Related party transactions

During the year CKR Holdings Limited and Rykesh Limited, companies controlled by Chris Fishwick, a former director, provided consultancy services to the Group in the normal course of business with a total value of £70,833 (2015: £85,000). There was no balance owed to CKR Holdings Limited or Rykesh Limited at the end of the year (2015: £Nil).

During the year dividends were paid to the following directors:

	2016 £	2015 £
I Fishwick	57	36
R Wilson	37	24
D Lukic	3	3
A Woodruffe	13	6
J Swaite	3	2

There is no ultimate controlling party.

24. Capital commitments

At 31 March 2016 there were capital commitments of £Nil (2015: £Nil).

25. Earnings per share

Earnings per share is calculated on the basis of a profit of £1,964,435 (2015: £1,534,128) divided by the weighted average number of shares in issue for the year of 22,364,213 (2015: 22,219,140). The diluted earnings per share is calculated on the treasury stock method and the assumption that the weighted average unapproved and EMI share options outstanding during the period are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 23,608,713 (2015: 23,649,870).

Adjusted earnings per share is calculated by adding back amortisation of intangible assets, the taxation deduction on purchased customer contracts and acquisition costs to retained earnings, giving £4,377,153 (2015: £3,501,343). This is divided by the same weighted average number of shares as above.

	2016 £'000	2015 £'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to equity holders	1,964	1,534
Add: amortisation	2,216	2,169
Less: taxation on amortisation of purchased customer contracts	(192)	(202)
Add: acquisition costs	389	—
Adjusted profit attributable to equity holders	4,377	3,501
Number of shares		
Weighted average number of shares used for earnings per share	22,364,213	22,219,140
Weighted average dilutive effect of share plans	1,244,500	1,430,730
Diluted weighted average number of shares	23,608,713	23,649,870
Earnings per share		
Basic earnings per share	8.78p	6.90p
Diluted earnings per share	8.32p	6.49p
Adjusted earnings per share		
Adjusted basic earnings per share	19.57p	15.76p
Adjusted diluted earnings per share	18.54p	14.81p

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

Adjusted earnings per share is calculated by dividing the retained earnings attributable to the equity holders (after adding back amortisation, the taxation deduction on purchased customer contracts to apply the treasury stock method of calculation and acquisition costs) by the weighted average number of ordinary shares in issue.

26. Financial instruments

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

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Loans and receivables at amortised cost				
Cash and cash equivalents	**6,166**	**5,489**	2,094	2,094
Loans and receivables	**2,584**	**1,517**	1,767	1,767
Financial liabilities at amortised cost				
Liabilities at amortised cost	**14,905**	**13,487**	5,200	5,200
Financial liabilities at fair value				
Contingent consideration	**2,956**	**2,956**	200	200
	17,861	**16,443**	5,400	5,400
Amounts due for settlement				
Within twelve months	**5,713**	**4,295**	2,305	2,305
After twelve months	**12,148**	**12,148**	3,095	3,095
	17,861	**16,443**	5,400	5,400

On 22 April 2015 the Company signed a new five-year £15m revolving credit facility agreement with Barclays Bank plc. The revolving credit facility bears interest at 2.30% over LIBOR on drawn funds and is repayable in full on the final repayment date of 21 April 2020.

The financial assets of the Group are cash and cash equivalents and trade and other receivables, which are offset against borrowings under the facility, and there is no separate interest rate exposure.

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

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

Contingent consideration obligations

At 31 March 2016 a financial liability of £2,956,571 has been recognised in respect of the fair value of the contingent consideration due in respect of the Centrix acquisition. The value at 31 March 2015 of £200,000 relates to the fair value of the deferred consideration paid in the current year in respect of the acquisition of Bluecherry Telecom Limited.

	Fair value as at					
Financial assets/ financial liabilities	31 March 2015	**31 March 2016**	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
7) Contingent consideration in a business combination	£200,000	**£2,956,571**	Level 3	The contingent consideration was based upon a multiple of gross margin calculated by the growth rate over a period of twelve months and subject to a maximum earn out of £3,500,000 due for payment by 30 June 2016.	Growth rate being the gross margin increase as measured by actual increase of gross margin over a twelve-month period. Gross margin based upon actual gross margins achieved.	The higher the growth rate the higher the multiple. The higher the gross margin the higher the earn out.

The earn out had not been achieved by 31 March 2016.

Obligations under finance leases

As at 31 March 2016 the Group had no finance lease obligations.

Notes to the financial statements continued

For the year ended 31 March 2016

26. Financial instruments continued

Sensitivity analysis

At 31 March 2016 it was estimated that a movement of 1% in interest rates would impact the Group's profit before tax by approximately £120,000.

Interest rate risk

The Group's current interest rate policy is subject to ongoing review in line with the level of borrowings and potential interest risk exposure. At 31 March 2016, none of the Group's borrowings are at a fixed rate of interest (2015: 0%).

Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2016 was £8,757,529 (2015: £3,873,300).

Loans and receivables

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Trade receivables	2,584	1,517	1,767	1,767
Other receivables	7	7	12	12
Cash and cash equivalents	6,166	5,489	2,095	2,095
	8,757	7,013	3,874	3,874

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

Trade receivables consist of a large number of customers, spread across diverse industries across the United Kingdom. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

Liquidity risk

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

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

Amortised cost

Year ended 31 March 2016	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	—	—	12,148	—
Trade and other payables	2,758	—	—	—
	2,758	—	12,148	—

Year ended 31 March 2015	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	538	3,095	—	—
Trade and other payables	1,567	—	—	—
	2,105	3,095	—	—

26. Financial instruments continued

Currency risk

The Group's operations are handled entirely in sterling.

Capital risk management

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

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

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

27. Business combinations

On 1 May 2015 the Company acquired the entire issued share capital of Centrix Limited ('Centrix') for an initial consideration of £6.9m plus the value of the cash balance of Centrix at completion (approximately £1.9m), payable in cash. Further contingent consideration of between £Nil and £3.5m was payable under the terms of the share purchase agreement. The Company estimated that contingent deferred cash consideration of £3.0m would be paid post-year end based upon the expected performance of Centrix post-acquisition. The fair value of contingent deferred consideration is different to that disclosed in the financial statements for the year ended 31 March 2015 as there was insufficient financial results or information upon which to determine the contingent consideration at the time. The fair value of discounted contingent deferred consideration was determined by reference to the growth rate for the gross margin of the acquired business and applying the contingent deferred consideration matrix as specified in the share purchase agreement. The contingent consideration liability of £3.0m has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.2m being included within finance costs as an interest charge. Total consideration is expected to be £10.0m (net of the cash acquired).

Centrix, based in Fleet, is a well established UK-based specialist provider of complex unified communications, Avaya IP telephony, hosted IP solutions and managed services. Centrix offers its clients the delivery of complex unified communications and managed service solutions, which is an increasing requisite for AdEPT's existing and targeted enterprise and public sector customer base. Centrix's skills and product set will complement and enhance AdEPT's existing services.

	Book cost £'000	Fair value £'000
Intangible asset	—	10,411
Property, plant and equipment	109	109
Inventories	59	59
Trade and other receivables	1,420	1,455
Cash and cash equivalents	2,063	2,063
Trade and other payables	(2,104)	(2,104)
Income tax	(147)	(147)
Net assets	**1,400**	**11,846**
Cash		(9,091)
Contingent cash consideration		(2,755)
Fair value total consideration		(11,846)
Goodwill		**—**

Centrix Limited contributed revenue and profit after tax of £8.8m and £1.8m respectively for the year ended 31 March 2016 and represents an eleven-month contribution. On a full year basis, Centrix would have contributed revenue and profit after text of £9.6m and £1.8m respectively. Acquisition related costs of £0.4m have been recognised as an expense in the statement of comprehensive income for the year ending 31 March 2016.

Notes to the financial statements continued

For the year ended 31 March 2016

28. Events after the balance sheet date

On 1 May 2016 the Company acquired the entire issued share capital of Comms Group UK Limited ('Comms') for an initial consideration of £3.5m plus the value of the cash balance of Comms at completion (approximately £1.1m), payable in cash. Further consideration of between £0.5m and £3.5m will be payable, also in cash, dependent upon the performance of Comms post-acquisition. The contingent deferred consideration will be determined by reference to the forecast churn/growth rate for the gross margin of the acquired business and applying the deferred consideration matrix as specified in the share purchase agreement. The fair value of the contingent consideration liability has not yet been identified at the date of signature of these financial statements as the completion balance sheet was not available and there have been no post-acquisition period financial results.

Comms, based in Northampton, is a well established UK-based specialist provider of unified communications, Avaya IP telephony, hosted IP solutions, IT and managed services. Comms offers its clients the delivery of unified communications and managed service solutions, which is an increasing requisite for AdEPT's existing and targeted enterprise and public sector customer base. Comms' technical skills and product set will complement and enhance AdEPT's existing services.

AdEPT and Comms have both adopted capital asset-light strategies and are dedicated to offering a full suite of flexible data and unified communication strategies.

Comms will retain its current presence and customer service operation in Northampton. The vendors of Comms are to be retained in their current capacity within the business for a period of at least twelve months post-acquisition.

The last filed accounts of Comms for the year ended 31 March 2015 reported turnover, operating profit and profit before tax of £3.3m, £0.5m and £0.4m respectively. Capital expenditure in the year ended 31 March 2015 was insignificant. Net and gross assets at that date were £1.2m and £1.8m respectively. Acquisition related costs of approximately £0.25m will be recognised as an expense in the statement of comprehensive income for the year ending 31 March 2017.

29. Principal subsidiaries

	Country	% shareholding	Description
Bluecherry Telecom Limited	England & Wales	100	Dormant
Centrix Limited	England & Wales	100	Trading

Company information

Directors
Roger Wilson
Dusko Lukic
Ian Fishwick
John Swaite
Richard Burbage (appointed 5 July 2016)
Christopher Fishwick (resigned 25 September 2015)
Joe Murphy (resigned 19 November 2015)
Amanda Woodruffe (resigned 5 July 2016)

Secretary
Maclay Murray & Spens LLP

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Glossary

21CN	The 21st Century Network programme is BT's network transformation project to move its telephone network from the PSTN to an IP system
ADSL	Asymmetric digital subscriber line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
CCS framework	Crown Commercial Service framework
Churn	The turnover rate of revenue for customers either joining or leaving a service over a particular time
The Company	AdEPT Telecom plc
Companies Act	Companies Act 2006
DSL	Digital subscriber line services are a family of wide-area technologies that are used to transmit digital data over telephone lines
Underlying EBITDA	Earnings before acquisition costs, share options, interest, taxation, depreciation and amortisation
ECTA	The European Competitive Telecommunications Association
The Group	The Company, its subsidiaries and entities which are joint ventures
IP	Internet protocol is the packet data protocol used for the routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
IP telephony	Internet protocol telephony is a term for phone systems that use the internet protocol's packet-switched connections to exchange information rather than the dedicated circuit-switched connections of the public switched telephone network
ISDN	Integrated services digital network is a set of communication standards for simultaneous digital transmission of voice, video, data and other network services over the traditional circuits of the public switched telephone network
LIBOR	The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks
MPLS networks	Multiprotocol label switching is a mechanism in high-performance telecommunications networks that directs data from one network node to the next based on short path labels rather than long network addresses, avoiding complex lookups in a routing table
Operating profit	Profit before finance costs and taxation
Optical Spectrum Services (OSA/OSEA)	Secure, permanently connected, high speed data circuits that use dense wavelength division multiplexing (DWDM) technology over optical fibre links
PSTN	The Public Switched Telephone Network is the world's collection of interconnected voice-oriented public telephone networks, both commercial and government owned
Single analogue line	The most common form of telephone line, used to service most homes and small businesses
SIP	Session initiation protocol is a signalling protocol for initiating and controlling users' multimedia communication sessions in an IP-based network
Telephony Service Framework (RM1045)	A multi-supplier pan-government framework for the purchase of telephony services
Tier-1 suppliers	The most important members of a supply chain, supplying components directly to the original equipment manufacturer that set up the chain
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
VoIP	Voice over internet protocol

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