Your
TRUSTED PARTNER
for
TECHNOLOGY TRANSFORMATION

AdEPT Telecom plc Annual report and accounts 2018

AdEPT

AdEPT unites communication and innovation through the use of technology.

We bring the ideas and the solutions to your business to help you succeed.

Put simply, we deliver products and services that help your business to grow, to be competitive, to increase profitability and to improve the way you communicate with your customers and your employees.

Overview

Strategic report

Corporate governance

Financial statements

2018 highlights

Financial highlights

- 15th consecutive year of increased underlying EBITDA up 24.8% to £9.8m (2017: £7.8m)
- Revenue increased by 34.8% to £46.4m (2017: £34.4m)
- Gross margin % increased by 5.4% to 47.7% (2017: 42.3%)**
- Underlying EBITDA margin % of 21.0% (2017: 22.7%)
- Profit before tax increased by 32.8% to £4.5m (2017: £3.4m)
- 26.2% increase to adjusted fully diluted earnings per share to 27.69p (2017: 21.94p)
- 12.9% increase to dividends declared to 8.75p (interim 4.25p, final 4.50p) (2017: 7.75p)
- Year-end net senior debt* of £17.6m (2017: £15.5m)
- Capital expenditure 0.8% of revenue (2017: 0.3%)

Operational highlights

- Managed services accounted for 69.8% of total revenue (2017: 55.4%)
- Acquisition of entire issued share capital of Atomwide Limited completed in August 2017

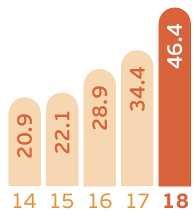
Our markets **page 8**

Our business model **page 6**

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

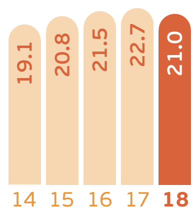
Revenue (£m)

£46.4m



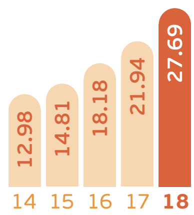
Underlying EBITDA margin (%)

21.0%



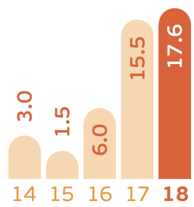
Adjusted earnings per share (p)

27.69p



Net debt* (£m)

£17.6m



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

** Excluding £0.755m Openreach compensation credits.

AdEPT at a glance

We have transformed ourselves from a telecoms company into managed services for IT, unified communications, connectivity and voice.

Your trusted partner for technology transformation

Ten years ago people predicted that we would only be using a single device that could do everything. The reality is that we now have more devices than ever before. Many people have a smartphone, a tablet, a laptop, a desk-based PC and a phone. Increasingly our service desks are managing remote end-points for a wide range of devices, from smartphones to WiFi routers to hosted servers, ensuring that they are working seamlessly together.

We can all see that technology and business move faster today than ever before. Not only must we plan our business' future we must also predict the technology best placed to take it there. AdEPT has been successfully helping organisations build IT and communication systems that truly meet their needs for today and tomorrow, creating solutions that work the way they need to deliver a consistent and reliable service.

Our five key entities

TELECOMS

AdEPT

Tunbridge Wells

- Calls and lines
- Data networks
- Super-fast fibre
- SIP

UNIFIED COMMUNICATIONS

AdEPT

Fleet

- Avaya Aura
- WiFi
- Fixed-mobile integration
- Data connectivity

COMMSGROUP
Part of the AdEPT Group

Northampton

- Hardware
- Calls and lines
- SIP and hosted
- Mobile
- Data connectivity

£46m
sales per annum

7
locations

200+
members of staff

Managed services
70%

Fixed line
30%

IT AND SOFTWARE SERVICES

our IT DEPARTMENT
Part of the AdEPT Group

Chingford

IT for Business

- Network support
- On-site audit
- Disaster recovery
- Cloud data back-up
- Hardware procurement

ATOMWIDE MANAGED SERVICES
Part of the AdEPT Group

Orpington

IT for Education

- Software applications
- Data centre
- Cyber security
- Support desk

Our managed services

We

Integrate your devices seamlessly

Manage your end-point devices remotely

Provide you with the fastest connectivity wherever you are

Provide you with the best voice solution

IT support

We are a highly accredited IT service provider with over 20 years' experience, offering award-winning 24/7 support services and technology solutions.

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.

Super-fast connectivity

AdEPT provides all types of super-fast connectivity from 10Gb to simple broadband and nationwide complex networks.

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.

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.

WiFi

AdEPT designs and implements wireless networking for any size of network supporting multiple devices including notebooks, mobiles, tablets, printers and more.

Chairman's statement

The Group has made considerable progress on a wide range of fronts.

Summary

The acquisition of Atomwide, combined with organic sales, has increased the rate of transition of the Group towards managed services, which accounted for 69.8% of total revenue in the year ended 31 March 2018 (2017: 55.4%)

We supply over 3,000 schools, nearly 50 hospitals and specialist medical facilities, over 200 business centres and thousands of commercial customers

AdEPT has increased the dividend proposed year on year by 12.9%, proposing a final dividend of 4.50p per ordinary share (2017: 4.00p)

As a result of the acquisitions completed in the year ended 31 March 2018, the Group now has just over 200 full-time employees

"

The Group benefits from an excellent cash-generating operating model. Lower capital expenditure results in a high proportion of underlying EBITDA turning into cash."

Review of operations

I am pleased to report that in the year ended 31 March 2018 the Group has made considerable progress on a wide range of fronts. In early 2015 we embarked on a journey to transform AdEPT from our original telecoms background into unified communications and then into IT. Our logic was simple: it is becoming increasingly difficult to tell where telecoms ends and IT starts in a world where 'work is something that we do, rather than necessarily a place that you go to'.

The strategy of the Group has been focused on increasing the proportion of revenue from managed services, combined with targeting customers in London and the South East and the public sector. We believe that the economy in London and the South East will continue to grow faster than the other regions in the UK and that there is an increasing drive in the public sector to place business contracts with small and medium-sized enterprises (SMEs).

The Group has been focused on the growth of managed service revenues and the acquisition of Atomwide, combined with organic sales, has increased the rate of transition of the Group towards managed services, which accounted for 69.8% of total revenue in the year ended 31 March 2018 (2017: 55.4%). The team at Atomwide has proved to be an excellent fit with AdEPT and has been successful in jointly working on delivering an infrastructure and support service which can be used across all companies in the Group.

London and the South East

In London we are Chief Technology Partner to London Grid for Learning supplying over 3,000 schools; we have nearly 50 hospitals and specialist medical facilities, over 200 business centres, thousands of commercial customers, and a range of specialist data and cloud services being supplied to central government departments.

Public sector and healthcare

In March 2016, the government set a target that 33% of public sector spend would be with SMEs by 2022. Following the impact of the Atomwide acquisition, in March 2018 31% of total Group revenue was generated from public sector and healthcare customers (2017: 20%) and as customers we currently have over 100 councils, 13 NHS trusts, more than 30 private hospitals, twelve universities, over 3,000 schools and services being provided to central government departments.

Both Atomwide and Our IT have been awarded approved supplier status on the new RM3804 Technology Services 2 framework by Crown Commercial Services. This framework is designed to make it far easier for public sector customers to buy IT products and services. AdEPT Tunbridge Wells has been awarded Health and Social Care Network (HSCN) Compliance and is now authorised to sell data networks to the NHS.

Dividends

In line with its progressive policy, AdEPT has increased the dividend proposed year on year by 12.9%, proposing a final dividend of 4.50p per ordinary share (2017: 4.00p), making total dividends proposed in respect of the year ended 31 March 2018 of 8.75p per ordinary share (2017: 7.75p).

Employees

As a result of the acquisitions completed in the year ended 31 March 2018, the Group now has just over 200 full-time 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 15 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

On 8 November 2017 we announced the appointment of Christopher Kingsman as a non-executive director. Christopher brings a broad range of experience from investing in and being involved with a number of public and private companies across different sectors. A graduate of Cambridge University, he started his career with Fidelity Investments and has managed a hedge fund and family office. He is the principal of a private Swiss investment group, executive chairman of Aranca, a global research, analytics and advisory firm based in India, and a director of a number of private companies.

Through Greenwood Investments Ltd, he has been the second largest shareholder of AdEPT since 2011. Having increased his stake in February 2018 from 16.9% to 21.3% of the current issued share capital of the Company Christopher Kingsman is now the largest shareholder.

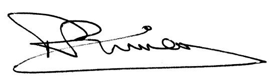
Company name change

The Board considered that the name of the Company should be changed to better reflect the business of the Group as a managed service provider for IT and unified communications. On 16 January 2018 the Company announced that at the general meeting held on 16 January 2018 it received approval for the change of Company name and that it would make a further announcement when the change became effective. The proposed Company name has not yet been able to be secured by the Company and therefore an alternative change of name will be proposed as part of the resolutions for the forthcoming AGM in September 2018.

Outlook

The excellent result for this year was delivered through a combination of strategic acquisition and organic contract wins, maintaining 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.

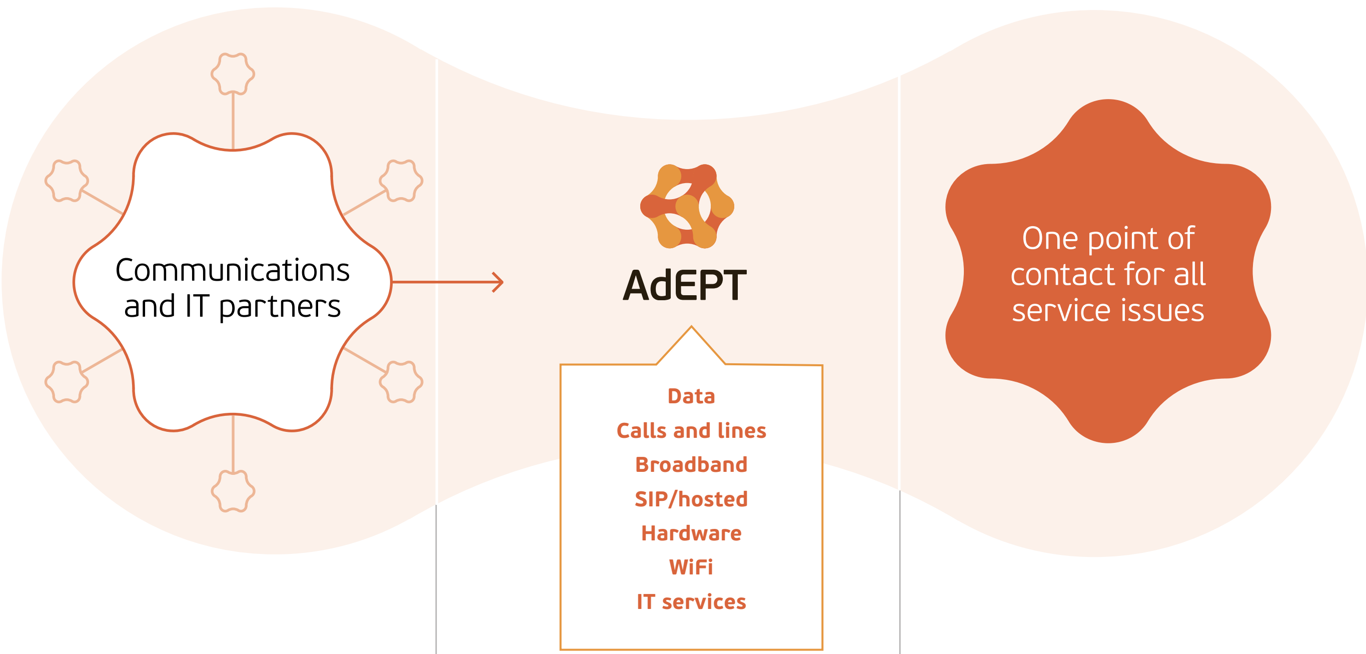
The focus for the coming year remains on developing organic sales through leveraging AdEPT's approved supplier status on the various public sector telecom frameworks, maintaining profitability and cash flow conversion, which will be used to reduce net borrowings and/or fund suitable earnings-enhancing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



Roger Wilson
Non-executive Chairman
13 July 2018

Our business model

AdEPT unites communication and innovation through the use of technology.



Network partners

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

AdEPT's focus with its partners is to develop and provide cost effective solutions with enhanced features and resilience. AdEPT selects its 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 communications and IT 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 communications and IT businesses. AdEPT provides dedicated account management for customers spending as little as £400 per month on telecom and IT services.

UK client base

AdEPT provides competitively priced communications and IT 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 and IT solutions. AdEPT is widely recognised as a multi-site multi-product specialist, with thousands of 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 and IT solution.

Our strategy

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.

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 and IT service providers.

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, continued development of new software apps and enhancement of existing software apps, and successfully sold these into the customer base.
- Our 'cloud' 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 retained existing clients through providing dedicated account management.

Our solutions

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

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 RM3825 HSCN Access Services 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 Atomwide 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 continue to monitor all potential acquisition targets that meet the criteria of complementing the existing business and adding shareholder value.

How we work

UK nationwide customer base and reach.

Our markets

The market in which we operate

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

Over the last three years we have transformed from 27% of revenue coming from managed services to a closing run rate of 70%. Our traditional fixed line rental and calls products are now 30% of our revenue. In the 2018 financial year, we completed the acquisition of Atomwide which gave us additional IT services with a focus on public sector, in particular education. The acquisition also extended our capability through the software development team and the data centre acquired with Atomwide.

70%
managed service revenue

Emerging markets

Telecoms and IT are converging fast.

We started by asking ourselves: what is 'Skype for Business'? Is it an IT software package or telephony on a desktop PC? It is a great example of how IT and telecoms are converging. But it does not stop there. All IT and telecom companies within the Group are supplying WiFi, data connectivity and hosted telephony along with specialist products that remotely manage end users. The demarcation line between telecoms and IT is becoming blurred and we are ideally positioned for the convergence.

1 billion
web requests filtered every day

Key trends

The transition to cloud is during recurring revenues.

Increasingly products are being hosted in the cloud, i.e. at a data centre. As examples: we can see it in telecoms with hosted telephony and IT with packages such as Microsoft Office 365. The common theme (apart from the location of the servers) is that you do not need expensive upfront capital expenditure and instead the revenue stream is of a monthly recurring nature.

1+ million
Office 365 users

Outlook

Our broader portfolio of products and services is increasing our accessible market.

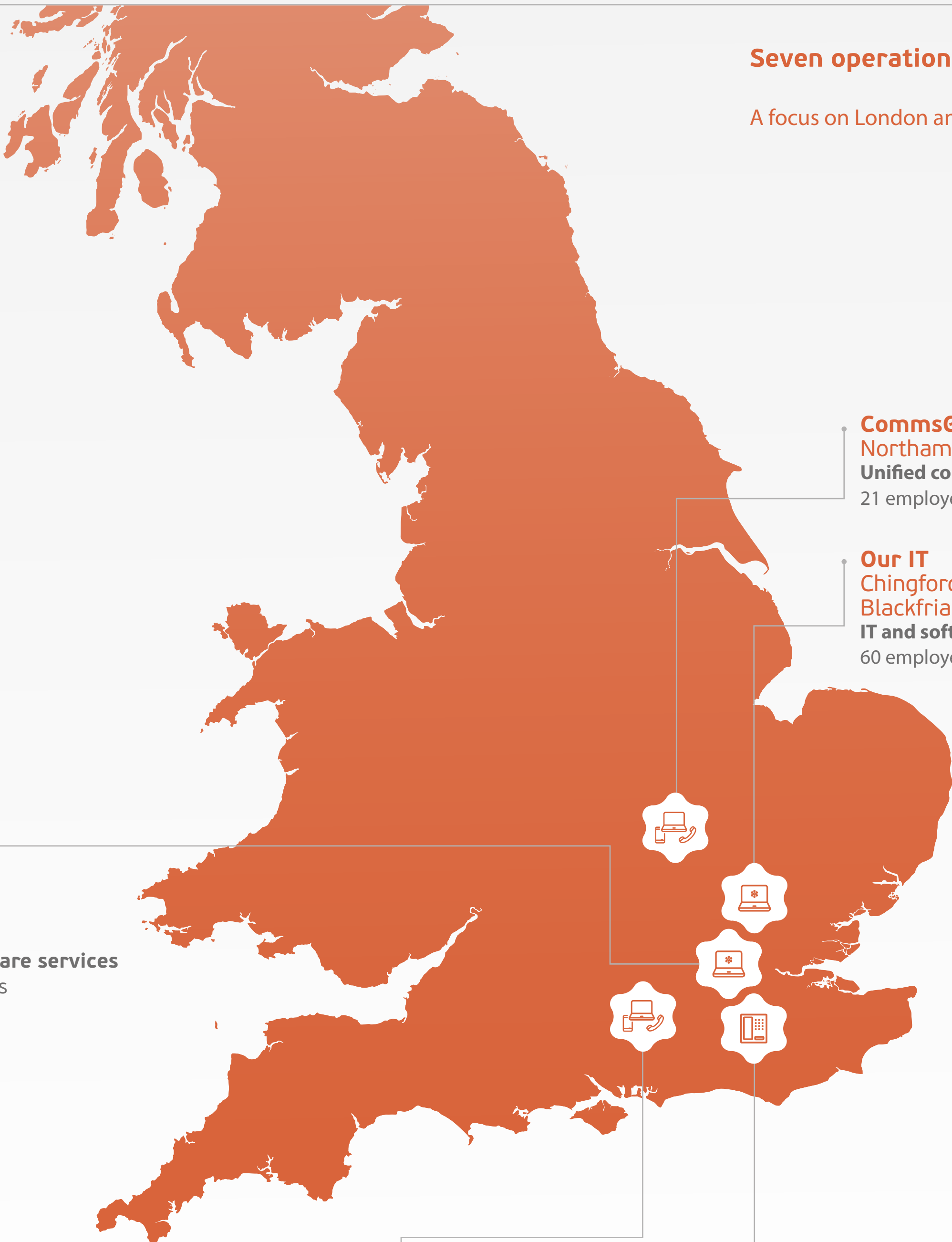
78% of our revenue is recurring. All companies in the Group are trading at around the Group EBITDA margin of 21.0%. We have the strongest product and service portfolio ever and our sales outlook is good.

Telecoms partner for 100+ councils and
15 NHS trusts

Our capabilities

Seven operational locations

A focus on London and the South East.



CommsGroup
Northampton
Unified communications
21 employees

Our IT
Chingford, St Neots, Blackfriars
IT and software services
60 employees

Atomwide
Orpington
IT and software services
54 employees

AdEPT – fleet office
Unified communications
29 employees

AdEPT – head office
Tunbridge Wells, Kent
Telecoms
32 employees

Business review

AdEPT has continued to make progress in its transition to a managed service provider.

Summary

Underlying EBITDA has increased for the 15th consecutive year since AdEPT's inception in 2003

Total revenue generated from managed services represented 69.8% of total revenue in the year ended 31 March 2018 (2017: 55.4%)

Adjusted fully diluted earnings per share increased by 26.2% to 27.69p per share (2017: 21.94%)

Total dividends of 8.75p per ordinary share represent a 12.9% increase year on year (2017: 7.75p)

"

During the year AdEPT has continued its transition from a traditional fixed line service provider towards a managed services provider. The proportion of revenue generated from managed services increased to 69.8% (2017: 55.4%)."

Principal activities and review of business

The principal activity of the Group is the provision of unified communication and IT 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 this strategic report on pages 6 to 17.

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 69.8% of total revenue in the year ended 31 March 2018 (2017: 55.4%).

Total revenue increased by 34.8% to £46.4m (2017: £34.4m):

- Managed services product revenues increased by £13.3m to £32.4m (2017: £19.1m). This reflects the impact of the eight month contribution from the acquisition of Atomwide combined with an increased level of organic contract wins and a lower relative churn rate within the managed service customer base. 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 10Gb services.
- Traditional fixed line revenues decreased to £14.0m (2017: £15.4m), which is a reflection of the organic sales focus of the Group on managed services and IT combined with the substitution impact of existing customers transitioning to new technologies, such as SIP and hosted services. The Group's reliance on fluctuating call revenues continues to reduce, with call revenue providing only 10.0% of total revenue in the year ended 31 March 2018 (2017: 15.4%).

The proportion of AdEPT revenue being generated from recurring products and services (being all revenue excluding one-off projects, hardware and software) remains high at 78.4% of total revenue. All of the Centrix, Comms Group, Our IT and Atomwide product sets include hardware supply and installation services, which, by their nature, are project based and not fixed recurring revenue streams; however, a high proportion of hardware supply and 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. AdEPT Tunbridge Wells was awarded Health and Social Care Network (HSCN) Compliance during the year, which is the replacement for the legacy N3 data network used by the NHS, and AdEPT has already contracted data connectivity services to the NHS. AdEPT is an approved supplier to the Crown Commercial Service under the RM1045 Network Services framework, the RM3825 HSCN Access Services framework and the RM3804 Technology Services 2 framework and the Group has been successful in winning new business through this framework. This is in addition to AdEPT's existing framework agreement with JISC (formerly the Joint Information Systems Committee), under which AdEPT is one of only a small number of companies approved to sell data connectivity to UK colleges and universities. The proportion of total revenue generated from public sector and healthcare customers has increased to 30.6% at March 2018 partly as a result of the contribution from the Atomwide acquisition as the whole of the acquired revenue stream is generated from its public sector customer base.

The Group is continuing to focus its organic sales efforts on adding and retaining larger customers whilst complementing this with an acquisitive strategy. AdEPT is managing customer risk with a wide spread of business sectors and no particular customer concentration, with the top ten customers accounting for 22.3% of total revenue (2017: 24.3%).

Gross margin

Gross margin percentage has improved to 49.4% during the year (2017: 42.3%). The current year gross margin includes £0.76m of compensation credits received from Openreach following the settlement in relation to the deemed consent process in relation to installation of data circuits. This compensation relates to service credits for a large number of data circuits across a number of financial periods and is not a true reflection of ongoing margin. Excluding the compensation credits gross margin has increased to 47.7% for the year; this increase over the prior year largely arises due to the business mix moving in greater proportion to IT services.

Gross margins for fixed line services have decreased to 38.8% (2017: 39.5%) which is a reflection of focus on winning and retaining larger customer accounts which by their nature have larger absolute revenue and gross profit but lower than average gross margin percentage.

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

Underlying EBITDA

Underlying EBITDA is defined as operating profit after adding back depreciation, amortisation, acquisition fees, revaluation of deferred consideration and share-based payment charges. The Group uses underlying 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 underlying EBITDA is the best indication of the underlying cash generation of the business. Below is a reconciliation of underlying EBITDA to the reported profit before tax:

Summary of three year financial performance:

	Year ended March				
	2018 £'000	Year on year %	2017 £'000	Year on year %	2016 £'000
Revenue	**46,434**	34.8%	34,436	19.2%	28,881
Gross margin	**22,919**	57.3%	14,571	25.2%	11,634
Underlying EBITDA	**9,771**	24.8%	7,827	27.2%	6,153
Net senior debt	**17,621**		15,456		5,982

	2018 £'000	2017 £'000
Underlying EBITDA	**9,771**	7,827
Acquisition fees	**(229)**	(703)
Openreach compensation credit	**755**	—
Share option charges	**(40)**	(31)
Revaluation of deferred consideration	**(28)**	—
Depreciation	**(418)**	(279)
Amortisation	**(3,730)**	(2,482)
Interest	**(1,561)**	(928)
Profit before tax	**4,520**	3,404

Business review *continued*

Underlying EBITDA *continued*

During the year the Group received £0.76m compensation from Openreach following the settlement in relation to the deemed consent process in relation to installation of data circuits. The value of the compensation received by the Group has been excluded from the calculation of underlying EBITDA as it does not relate to the current year and it is not a reflection of the underlying profitability of the Group.

Underlying EBITDA has increased for the 15th 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 £1.56m (2017: £0.93m), arising largely from the increase in the average level of net borrowings, including the interest payable on the convertible loan note, which were used to fund the acquisition of Atomwide. Included within interest costs is a £0.40m charge, which is non-cash, in relation to the discounted cash flow impact of the contingent deferred consideration payable in relation to the Comms Group, CAT, Our IT and Atomwide acquisitions. A further £0.1m of non-cash interest from the application of IAS 32 and IAS 39 has been recognised in interest costs in relation to the discounting of the convertible loan liability. 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 profit before tax has increased by £1.03m with a reported £4.43m (2017: £3.40m). The increase to profit before tax arises from the £1.94m underlying EBITDA improvement plus the compensation credits received from Openreach of £0.76m, which has been partially absorbed by the £0.63m increase in finance costs, the acquisition costs of £0.23m, and the associated increase in depreciation and amortisation arising from the acquisitions undertaken during the current and prior years.

Profit after tax and earnings per share

Profit after tax for the year amounted to £3.87m (2017: £2.75m). Basic earnings per share was 16.34p (2017: 12.17p). Adjusted fully diluted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation, share option charges, revaluation of deferred consideration and acquisition costs and excluding the compensation credits (see Note 27), increased by 26.2% to 27.69p per share (2017: 21.94p).

Dividends and dividend per share

On the back of strong cash flow generation AdEPT announced an interim dividend of 4.25p per share, which was paid to shareholders on 7 April 2018. The Company announced in the pre-trading update on 5 April 2018 that, subject to shareholder approval at the annual general meeting later in the year, it is proposing a final dividend of 4.50p per ordinary share (2017: 4.00p). This dividend is expected to be paid on or around 8 October 2018 to shareholders on the register at 28 September 2018.

Total dividends approved and proposed during the year ended 31 March 2018 of 8.75p per ordinary share represent a 12.9% increase year on year (2017: 7.75p). 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 a high proportion of underlying EBITDA turning into cash. The proportion of reported EBITDA which turned into net cash from operating activities before income tax was 95.5% (2017: 82.2%). On an after income tax basis, the proportion of reported EBITDA turned into net cash from operating activities was 80.8% (2017: 68.1%). The Group continues to manage its credit risk and the collections of trade receivables have reduced during the year with customer collection periods of 26 days (2017: 35 days). This reduction is partly a reflection of an increased value of customer payments in advance received for telecom and IT maintenance and support services.

Cash interest paid has increased during the year to £0.91m (2017: £0.40m), which arises from the increase in net borrowings to fund the acquisition of Atomwide.

Cash outflows in the year ended 31 March 2018 in relation to acquisitions amounted to £14.52m (net of cash acquired). The contingent consideration in respect of the acquisition of Comms Group was paid in July 2017 and for CAT Communications in November 2017 with no further amounts due.

The initial cash consideration for the acquisition of Atomwide of £12.0m (net of cash acquired) was paid in August 2017.

Dividends paid during the year ended 31 March 2018 absorbed £1.84m of cash (2017: £1.46m). This increase over the prior period arises from the continued application of the progressive dividend policy.

In August 2017 the Group raised £7.29m in the form of a convertible loan instrument from BGF to part fund the acquisition of Atomwide. The convertible loan instrument is excluded from the leverage calculations by the senior debt partners, Barclays and RBS. The Group has applied the principles of IAS 32 and IAS 39 in the recognition and measurement of the convertible loan. The net present value of the loan of £7.09m has been split between the debt and equity components and an amount of £1.16m has been recorded in equity, with £5.93m being included within long-term debt. The discount charge of £0.20m is being recognised in the interest charge in the income statement across the term of the convertible instrument.

There was a significant increase to cash and cash equivalents during the year of £6.59m. This arises from a net increase in the drawn element of the revolving credit facility at March 2018 which was used to fund the deferred consideration for the acquisition of Our IT, with an amount of £3.65m paid in early April 2018. 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 continues to operate an asset-light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 0.8% of revenue (2017: 0.3%).

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 use our free cash generation in combination with debt and equity instruments to acquire customer bases and businesses in the IT and telecommunications industry.

On 2 August 2017 the Company acquired the entire issued share capital of Atomwide. Atomwide, founded in 1987, is an IT services provider with over 30 years' experience, offering specialised IT support services and technology solutions to approximately 2 million users in over 3,000 schools. Atomwide is the chief technology partner for London Grid for Learning, supplying IT services to around 3,000 schools in London.

The bespoke services have been created by the in-house development team and are supported by an experienced team of IT professionals based at Atomwide's premises in Orpington, Kent. All of the senior management team, which is responsible for the strategic direction, technical development and day-to-day operations of Atomwide, are to be retained within the business post-acquisition. The acquisition was for an initial consideration of £12.0m plus the value of the surplus cash balance of Atomwide at completion (approximately £6.5m), payable in cash. Further contingent deferred consideration of up to £8.0m will be payable, also in cash, dependent upon the performance of Atomwide post-acquisition. The estimated deferred consideration payable at 31 March 2018 was £0.7m.

A fair value of £8.38m in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the year ended 31 March 2018. Further details on the acquisition during the year are described in Note 28 of the financial statements.

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 taxes but before bank interest paid of £8.27m was generated during the year ended 31 March 2018 (2017: £4.33m).

Opening cash plus the free cash flow generated in the year, the proceeds of the convertible loan note issued and borrowing drawdowns from the senior debt facility have been used to fund £14.52m acquisition consideration, £1.84m dividends paid and £0.45m of capital expenditure on tangible and intangible assets. Net senior debt, which comprises cash balances and bank borrowings, has increased to £17.62m at the year end (2017: £15.46m) as a result of the acquisition consideration outflows.

The Group's available banking facilities are described in Note 29 of the financial statements.

Segmental key performance indicators (KPIs)

The segmental 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 2018			
Revenue	**14,001**	**32,433**	**46,434**
Gross profit	**5,439**	**17,480**	**22,919**
Gross margin %	**38.8%**	**53.9%**	**49.4%**
EBITDA	**2,877**	**6,894**	**9,771**
EBITDA %	**20.5%**	**21.3%**	**21.0%**
Year ended 31 March 2017			
Revenue	15,365	19,071	34,436
Gross profit	6,074	8,497	14,571
Gross margin %	39.5%	44.6%	42.3%
EBITDA	3,387	4,440	7,827
EBITDA %	22.0%	23.3%	22.7%

There are no non-financial KPIs which are reviewed regularly by the senior management team.

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 of various durations to customers 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, a large proportion of our customer receipts are collected by monthly direct debit. The risk is further reduced by the customer base being spread across a wide variety of industry and service sectors. The top ten customers account for approximately 22.5% 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
Finance director
13 July 2018

Case study: Atomwide

Atomwide is the leading supplier of IT services to the education sector with 3,000+ schools and over 2 million users of its IT and software services across the UK.

AdEPT Telecom plc acquires Atomwide Limited

Since 1987 Atomwide has provided IT services for schools, local authorities and regional broadband consortia (RBCs) as well as a range of other establishments nationwide. Atomwide is chief technical partner to London Grid for Learning and TrustNet, together providing cost effective IT software, service and support to thousands of schools across the UK, with more than 2,500 schools in London.

Atomwide has a highly experienced software development team which has designed and maintained around 50 software applications. Now a company of over 50 experienced staff, Atomwide is a fast moving, successful, growing and customer focused business.

2 million+
users of its bespoke education apps

1 million+
Office 365 users – one of the largest single deployments anywhere in the world

500,000+
users – one of the largest Microsoft Exchange clusters in Europe

Atomwide filters over
1 billion
web requests per day

Our results

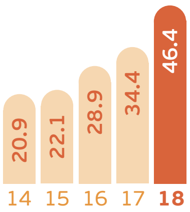
Key performance indicators

Financial performance

Revenue (£m)

£46.4m

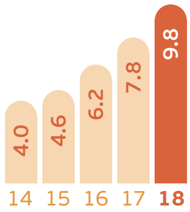
(2017: £34.4m)



Underlying EBITDA (£m)

£9.8m

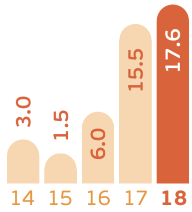
(2017: £7.8m)



Net debt (£m)

£17.6m

(2017: £15.5m)

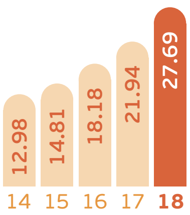


Non-financial performance

Adjusted earnings per share (p)

27.69p

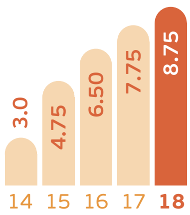
(2017: 21.94p)



Dividend per share (p)

8.75p

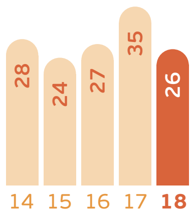
(2017: 7.75p)



Customer credit collection (days)

26 days

(2017: 35 days)



Principal risks and uncertainties

Transparent management of risks and opportunities is essential to the delivery of the Group's strategic objectives.

Nature of risk and impact	Mitigation	Change
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.	↘ Risk decreased
Credit risk		
The Group extends credit of various durations to customers 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, a large proportion 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 22.5% of revenues.	→ No change
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.	→ No change
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.	→ No change

The strategic report set out on pages 6 to 17 has been approved by the Board on 13 July 2018 and signed on its behalf by:

John Swaite
Finance director

Chairman's introduction to governance

Effective corporate governance is key to facilitating success within the Group.

The Board recognises the importance of sound corporate governance and is committed to ensuring that effective procedures are in place and are appropriate for a public company of its size and complexity. We work closely with our nominated adviser, to ensure we are up to date on all relevant stock exchange regulations. Our audit committee and our remuneration committee are chaired by our independent non-executive director, Dusko Lukic. We have regular reviews of International Accounting Standards and International Financial Reporting Standards with our auditor, Crowe U.K. LLP. Our remuneration policy for executive and non-executive directors is set to be in line with median remuneration packages of AIM 200 companies.

Roger Wilson
Non-executive Chairman
13 July 2018

Board of directors

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 technology industry for 28 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.

Richard Burbage

Unified communications director

Richard 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 1990s 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.

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.

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. In his role as senior corporate finance manager, 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.

Audit committee member

Remuneration committee member

Christopher Kingsman

Non-executive director

Christopher joined the Board in November 2017. Through Greenwood Investments Ltd, he has been one of the largest shareholders of AdEPT since 2011. Christopher brings a broad range of experience from investing in and being involved with a number of public and private companies across different sectors. A graduate of Cambridge University, he started his career with Fidelity Investments and has managed a hedge fund and family office. He is the principal of a private Swiss investment group, executive chairman of Aranca, a global research, analytics and advisory firm based in India, and director of a number of private companies.

Directors' report

For the year ended 31 March 2018

The directors present their report and the financial statements for the year ended 31 March 2018.

Strategic report and corporate governance statement

In accordance with Section 414c(ii) of the Companies Act 2006, information previously shown in the directors' report, which includes the business review, future developments, dividends, acquisition of own shares and principal risks and uncertainties, is now shown in the strategic report and Chairman's statement. The corporate governance statement includes the list of directors who served in the year.

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 (IFRSs) 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, the directors' report and other information included in the annual report and financial statements are 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 auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

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

Provision of information to auditor

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 auditor was 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 auditor was 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 £5,600 (2017: £6,737).

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.

Subsequent events

There were no subsequent events after the balance sheet date.

Research and development

The Group has a software development team at Atomwide which is responsible for the ongoing enhancement of existing software applications and the development of new software. The rest of the Group does not undertake significant levels of investment in research and development; instead they work with strategic network and supply partners to develop the product portfolio.

Financial risk management

Details of the financial risk management policies of the Group are included in Note 29.

Auditor

The auditor, Crowe U.K. LLP (previously 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

Ian Fishwick
Director
13 July 2018

Report of the remuneration committee

The Group is committed to the governing objective of maximising shareholder value.

Scope of the report

The remuneration report summarises the remuneration committee's activities during the year, the outcomes for directors' remuneration and the Group's remuneration policy. The report also describes how the Group applies the principles of good corporate governance in relation to directors' remuneration. The remuneration committee is appointed by the Board and comprises only non-executive directors. The committee meets regularly to determine, on behalf of the Board, the framework of executive remuneration.

During the year, the membership of the committee comprised Dusko Lukic (Chairman) and Roger Wilson.

The members of this committee do not have any conflicts from cross-directorships that relate to the business of the committee. The members do not have any day-to-day involvement in the running of the Group.

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

During the year the committee met on four occasions.

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

Remuneration policy

The Group is committed to the governing objective of maximising shareholder value over time.

Each year the remuneration framework and the packages of the directors are reviewed to ensure they continue to achieve this objective.

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

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

Element of remuneration policy and link to strategy policy and approach

Base salary

- To pay a competitive level of fixed remuneration, taking into account experience and personal contribution to the Group's strategy.
- Intended to attract and retain the talent required to execute the strategy.
- Reviewed annually by the committee in January.

Salary increases will normally be in line with pay review levels across the whole Group and by reference to individual performance. However, reference is also made to changes in role and responsibility. Reference is also made to comparisons with companies of similar size and complexity.

Benefits

These complement an executive's basic salary and are designed to ensure the wellbeing of employees. Benefits in place include pension contribution, car allowance and membership of private health and life assurance schemes.

Bonus

A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. Goals and objectives are set for the executive director team as a whole with a significant weight being put on meeting and exceeding the annual budget in terms of revenue, EBITDA and net debt targets. Executive directors' bonuses are set at between 10% and 20% of base salary.

Share options

To encourage and reward delivery of the Company's long-term strategic objectives and provide alignment with shareholders through the use of share-based incentives. The remuneration committee applies a policy of issuing share options up to 1% each year of the issued share capital at the date of the previous year end.

All share-based incentives offered to executive directors have minimum three year retention schedules. Share option grants made are at market price. Vesting is subject to continuing employment.

Roger Wilson, Dusko Lukic, Ian Fishwick, John Swaite and Richard Burbage have been granted share options, details of which are shown below. Each executive director has a twelve month rolling service agreement, with the exception of Richard Burbage who has a three month rolling contract. Non-executive directors each have a three month rolling contract.

The remuneration of the non-executive directors is agreed by the executive directors, and is based upon the level of fees paid at comparable companies and taking account of the directors' evolving responsibilities. The non-executives' remuneration includes base salary, car allowance and associated auto-enrolment pension contributions.

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

	Short-term employee benefits			Post-employment benefits		
	Salary and fees paid or receivable £	Bonus and commission paid or receivable £	Other benefits £	Pension contributions £	**Total 2018 £**	Total 2017 £
R Wilson	61,242	—	11,035	391	**72,668**	58,231
D Lukic	38,380	—	9,675	331	**48,386**	34,129
C Kingsman	12,743	—	—	33	**12,776**	—
I Fishwick	248,333	57,500	44,131	13,306	**363,270**	367,330
A Woodruffe	—	—	—	—	**—**	64,520
R Burbage	128,400	68,471	2,358	391	**199,620**	153,212
J Swaite	166,667	30,388	11,274	391	**208,720**	189,954
Total	655,765	156,359	78,473	14,843	**905,440**	867,376

Report of the remuneration committee *continued*

Share options *continued*

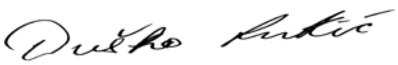
During the year retirement benefits were accruing to six directors (2017: one) in respect of money purchase pension schemes. The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £13,306 (2017: £14,025).

The share option debit recognised during the year in respect of the directors was £40,254 (2017: £31,031). The aggregate amount of gains made by directors on the exercise of share options was £Nil (2017: £Nil). There were no directors (2017: Nil) who exercised share options during the year.

The following share options remain outstanding under the Company share option scheme:

	Option scheme	Options at 1 April 2017	Awarded in year	Options exercised	Options lapsed	**Options at 31 March 2018**	Option price	Date of grant
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
R Burbage	Unapproved	100,000	—	—	—	**100,000**	238p	31 October 2016
R Burbage	Unapproved	52,500	—	—	—	**52,500**	238p	31 October 2016
I Fishwick	Unapproved	—	140,000	—	—	**140,000**	335p	2 August 2017
J Swaite	Unapproved	—	100,000	—	—	**100,000**	335p	2 August 2017

None of the outstanding options have vested. These options have a minimum three year vesting period; they were issued at market value and they are not subject to any performance conditions.



Dusko Lukic
Chairman of the remuneration committee
13 July 2018

Corporate governance statement

The directors recognise the importance of sound corporate governance and have developed governance policies appropriate for the size of the Group, with reference to the main provisions of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance (QCA).

The Board

Executive directors

Ian Fishwick
John Swaite
Richard Burbage

Non-executive directors

Roger Wilson
Dusko Lukic
Christopher Kingsman
(appointed 8 November 2017)

Remuneration committee

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

Members

Dusko Lukic (Chairman)
Roger Wilson
Christopher Kingsman

Audit committee

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

Members

Dusko Lukic (Chairman)
Roger Wilson

Given the Group's size, there is not a separate nomination committee, and the Board as a whole considers recommendations for appointments to the Board.

The QCA's Code for Small and Mid-Size Quoted Companies recommends that an AIM company should have at least two independent non-executive directors. The Board considers that two of the existing non-executive directors, Roger Wilson and Christopher Kingsman, are not independent for the purposes of this Code 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 three non-executive directors. The Board meets regularly throughout the year and has a formal schedule of matters specifically reserved for its decision. This schedule is included in the corporate governance document available on the 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.

The directors are required to retire on a three year rotational basis, and they are required to stand for re-appointment by shareholders at the AGM.

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.

Meeting attendance

Bi-monthly Board meetings were held throughout the year ended 31 March 2018. Directors are provided with comprehensive background information for each meeting, and all directors have been able to participate fully and on an informed basis in all Board decisions. Any specific actions arising during meetings agreed by the Board are followed up and reviewed at subsequent meetings. 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	2	6	1	3	2	**14**
D Lukic	2	6	1	3	3	**15**
C Kingsman	1	3	—	1	1	**6**
I Fishwick	46	6	—	—	—	**52**
J Swaite	46	6	1*	—	—	**53**
R Burbage	46	6	—	—	—	**52**

* By invitation.

Corporate governance statement *continued*

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:

- a management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the Board. Towards the end of each financial year, detailed budgets are prepared for the following year. Re-forecasts are prepared on a regular basis during the year, for example reflecting an additional acquisition. The actual results are compared to budget and/or re-forecasts as appropriate;
- regular review of staff skills and 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 reviews 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 29 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 no shares during the year (2017: 19,136 shares at an average price of 318p). 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

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

New QCA Code

The QCA has published a revised Corporate Governance Code which the directors intend to adopt. As required by the AIM Rules for Companies, no later than 28 September 2018, the directors will include details of the Code on the Company's website, explaining how the Company complies with the Code and, where it departs from the Code, the reasons for so doing.

Independent auditor's report

To the shareholders of AdEPT Telecom plc

Opinion

We have audited the financial statements of AdEPT Telecom plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise:

- the Group statement of comprehensive income for the year ended 31 March 2018;
- the Group and parent Company statements of financial position as at 31 March 2018;
- the Group and parent Company statements of cash flows for the year then ended;
- the Group and parent Company statements of changes in equity for the year then ended; and
- the Notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 2018 and of the Group's profit for the period 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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £400,000 (March 2017: £350,000), based on a percentage of underlying EBITDA.

The materiality set represents 4.1% of underlying EBITDA which is the key measure the group uses to report performance.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the audit committee to report to it all identified errors in excess of £10,000 (March 2017: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The audit scope was established during the planning stage and was based around the key matters set out below. The scope included tests of control to establish the client's systems in use are working effectively and tests of detail selecting transactions via random sampling techniques.

The audit field work was completed at various sites across the country which reflect the locations the company and its subsidiaries operate from. The parent company and all subsidiaries were audited by Crowe U.K. LLP and no component auditors were used.

Independent auditor's report *continued*

To the shareholders of AdEPT Telecom plc

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of intangible assets and goodwill Intangible assets and goodwill are considered to be a significant risk due to the size of the balances and application of judgement by the directors.	Management conduct an annual impairment review of intangible assets and goodwill. We reviewed the inputs into the model provided by management and challenged the assumptions made. The principal estimates were considered to be the discount rate applied and the estimated useful life of the intangible assets.
The recognition of intangible assets on acquisition The Company made a significant acquisition in the year and there was therefore considered to be a risk that management had incorrectly identified the intangible assets purchased or had incorrectly valued those assets.	Management provided an initial valuation of intangibles recognised upon acquisition. These were customer bases and software. These were valued on discounted future cash flows. We reviewed the inputs into the valuations and challenged the assumptions made. The principal estimates made were the discount rate applied and the estimated useful life of the intangible assets.
The accounting for deferred consideration The group had deferred consideration outstanding from previous acquisitions as well as deferred consideration recognised on the purchase of Atomwide. Deferred consideration is based upon post-acquisition performance. The calculations require management to both look at performance to date and estimate future performance. We considered there to be a risk that the deferred consideration liability did not reflect post-acquisition performance and a risk that post-acquisition performance had been incorrectly capitalised. Due to the application of judgement on future performance and a risk of either a material over or understatement of the year-end liability we considered this to be a significant risk.	The deferred consideration outstanding at the year end related to Our IT Department Limited and Atomwide Limited. The Our IT Department consideration was paid shortly after the year end and therefore audit evidence was available to support the year-end liability. The Atomwide deferred consideration was initially based upon management estimates and subsequently revised at the year end. We reviewed the estimates made by management and compared these to the reported data to ensure that the liability correctly reflected post-acquisition performance.
Accounting for the convertible loan During the year the group took out a £7.3m convertible loan. Accounting standards require consideration of whether the loan contains debt and equity elements and if so requires these elements to be split. In calculating the liability element, consideration is required as to the rate applied on a similar loan without a conversion option. The group has not taken out such loans in the past and combined with the size of the loan we considered this to be a significant risk.	We reviewed the loan agreement to ascertain whether there were both debt and equity elements. We challenged management on the discount rate used.
Group audit and consolidation process Due to the number of acquisitions in recent years we considered there to be a risk that the consolidation is not prepared and that accounting policies were not consistent between group companies.	We reviewed the consolidation provided to us by management. The accounting policies for subsidiaries were reviewed for inconsistencies.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Mark Anderson (Senior Statutory Auditor)
for and on behalf of Crowe U.K. LLP
40–46 High Street
Maidstone
Kent ME14 1JH, UK
26 July 2018

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Revenue	6	**46,434**	34,436
Cost of sales		**(23,515)**	(19,865)
Gross profit		**22,919**	14,571
Administrative expenses		**(16,838)**	(10,239)
Operating profit		**6,081**	4,332
Total operating profit – analysed:			
Underlying EBITDA		**9,771**	7,827
Share-based payments		**(40)**	(31)
Depreciation of tangible fixed assets		**(418)**	(279)
Amortisation of intangible fixed assets		**(3,730)**	(2,482)
Loss on revaluation of deferred consideration		**(28)**	—
Acquisition fees		**(229)**	(703)
Compensation credits		**755**	—
Total operating profit		**6,081**	4,332
Finance costs	9	**(1,561)**	(928)
Profit before income tax		**4,520**	3,404
Income tax expense	11	**(584)**	(655)
Profit for the year		**3,936**	2,749
Other comprehensive income		**—**	—
Total comprehensive income		**3,936**	2,749

	Note	2018	2017
Earnings per share			
Basic earnings	28	**16.61p**	12.17p
Diluted earnings	28	**16.36p**	11.57p

All amounts relate to continuing operations. The Notes on pages 35 to 63 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Goodwill	13	**14,531**	11,217
Intangible assets	14	**35,666**	28,559
Property, plant and equipment	16	**1,114**	863
		51,311	40,639
Current assets			
Inventories	18	**266**	196
Contract assets	4	**423**	—
Trade and other receivables	19	**5,867**	5,514
Cash and cash equivalents		**7,127**	1,238
		13,683	6,948
Total assets		**64,994**	47,587
Current liabilities			
Trade and other payables	20	**11,832**	13,049
Contract liabilities	4	**568**	—
Income tax		**199**	664
Short-term borrowings		**—**	706
		12,599	14,419
Non-current liabilities			
Deferred tax	17	**5,590**	4,057
Convertible loan instrument	21	**6,011**	—
Long-term borrowings	21	**24,749**	15,988
Total liabilities		**48,949**	34,464
Net assets		**16,045**	13,123
Equity attributable to equity holders			
Share capital	22	**2,370**	2,370
Share premium		**479**	479
Share capital to be issued		**1,012**	34
Capital redemption reserve		**18**	18
Retained earnings		**12,166**	10,222
Total equity		**16,045**	13,123

The financial statements were approved and authorised for issue by the Board on 13 July 2018 and signed on its behalf by:

Ian Fishwick

Ian Fishwick
Director

The Notes on pages 35 to 63 form part of these financial statements.

Registered number 4682431

Company statement of financial position

As at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Intangible assets	14	9,495	11,376
Investments	15	46,270	26,542
Property, plant and equipment	16	95	137
Deferred income tax	17	—	43
		55,861	38,098
Current assets			
Inventories	18	1	1
Contract assets		284	—
Trade and other receivables	19	1,360	1,688
Cash and cash equivalents		4,305	—
		5,950	1,689
Total assets		61,811	39,787
Current liabilities			
Trade and other payables	20	9,705	10,655
Contract liabilities		336	—
Income tax		133	132
Short-term borrowings		—	706
		10,174	11,493
Non-current liabilities			
Other provisions and liabilities	17	140	—
Convertible loan instrument	21	6,011	—
Long-term borrowings	21	24,749	15,988
Total liabilities		41,074	27,481
Net assets		20,736	12,306
Equity attributable to equity holders			
Share capital	22	2,370	2,370
Share premium		479	479
Share capital to be issued		1,012	34
Capital redemption reserve		18	18
Retained earnings		16,857	9,405
Total equity		20,736	12,306

The profit for the financial year dealt with in the financial statements of the parent Company was £9,326,057 (2017: loss £566,084).

The financial statements were approved and authorised for issue by the Board on 13 July 2018 and signed on its behalf by:

Ian Fishwick

Ian Fishwick
Director

The Notes on pages 35 to 63 form part of these financial statements.

Registered number 4682431

Consolidated statement of changes in equity

For the year ended 31 March 2018

	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 2016	2,248	429	56	16	9,011	11,760
Profit for the year	—	—	—	—	2,749	2,749
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	2,749	2,749
Deferred tax asset adjustment	—	—	—	—	(69)	(69)
Exercise of warrants	—	—	(53)	—	53	—
Dividends	—	—	—	—	(1,461)	(1,461)
Share-based payments	—	—	31	—	—	31
Issue of share capital	124	50	—	—	—	174
Shares repurchased and cancelled	(2)	—	—	2	(61)	(61)
Equity at 1 April 2017	2,370	479	34	18	10,222	13,123
Impact of change in accounting policy	—	—	—	—	(174)	(174)
Adjusted equity at 1 April 2017	2,370	479	34	18	10,048	12,949
Profit for the year	—	—	—	—	3,936	3,936
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	3,936	3,936
Deferred tax asset adjustment	—	—	—	—	19	19
Dividends	—	—	—	—	(1,837)	(1,837)
Share-based payments	—	—	40	—	—	40
Equity element of convertible loan note	—	—	938	—	—	938
Equity at 31 March 2018	**2,370**	**479**	**1,012**	**18**	**12,166**	**16,045**

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated see Note 4.

The Notes on pages 35 to 63 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 March 2018

	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 2016	2,248	429	56	16	11,509	14,258
Loss for the year	—	—	—	—	(566)	(566)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(566)	(566)
Deferred tax asset adjustment	—	—	—	—	(69)	(69)
Exercise of warrants	—	—	(53)	—	53	—
Dividends	—	—	—	—	(1,461)	(1,461)
Share-based payments	—	—	31	—	—	31
Issue of share capital	124	50	—	—	—	174
Shares repurchased and cancelled	(2)	—	—	2	(61)	(61)
Equity at 1 April 2017	2,370	479	34	18	9,405	12,306
Impact of change in accounting policy	—	—	—	—	(55)	(55)
Adjusted equity at 1 April 2017	2,370	479	34	18	9,350	12,251
Profit for the year	—	—	—	—	9,325	9,325
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	9,325	9,325
Deferred tax asset adjustment	—	—	—	—	19	19
Dividends	—	—	—	—	(1,837)	(1,837)
Share-based payments	—	—	40	—	—	40
Equity element of convertible loan note	—	—	938	—	—	938
Equity at 31 March 2018	**2,370**	**479**	**1,012**	**18**	**16,857**	**20,736**

The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated see Note 4.

The Notes on pages 35 to 63 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Profit before income tax	4,520	3,404
Depreciation and amortisation	4,148	2,761
Profit on sale of fixed asset	—	—
Share-based payments	40	31
Net finance costs	1,561	928
Operating cash flows before movements in working capital	10,269	7,124
Decrease/(increase) in inventories	(39)	33
Decrease/(increase) in trade and other receivables	479	(123)
(Decrease)/increase in trade and other payables	(972)	(1,202)
Cash generated from operations	9,737	5,832
Income taxes paid	(1,501)	(1,504)
Net cash from operating activities	8,236	4,328
Cash flows from investing activities		
Interest paid	(907)	(405)
Acquisition of subsidiaries net of cash acquired	(14,523)	(11,987)
Purchase of intangible assets	(54)	(26)
Sale of property, plant and equipment	—	—
Purchase of property, plant and equipment	(364)	(146)
Net cash used in investing activities	(15,848)	(12,564)
Cash flows from financing activities		
Dividends paid	(1,837)	(1,461)
Share capital issued	—	174
Payments made for share repurchases	—	(61)
Increase in bank loan	11,500	3,950
Repayment of borrowings	(2,750)	—
Issue of convertible loan note	7,294	—
Net cash from financing activities	14,207	2,602
Net (decrease)/increase in cash and cash equivalents	6,595	(5,634)
Cash and cash equivalents at beginning of year	532	6,166
Cash and cash equivalents at end of year	7,127	532
Cash and cash equivalents		
Cash at bank and in hand	7,127	1,238
Short-term borrowings	—	(706)
Cash and cash equivalents	7,127	532

The Notes on pages 35 to 63 form part of these financial statements.

Company statement of cash flows

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Profit/(loss) before income tax	9,495	(111)
Depreciation and amortisation	1,988	1,984
Profit on sale of fixed asset	—	—
Share-based payments	40	31
Net finance costs	1,561	928
Operating cash flows before movements in working capital	13,084	2,832
Decrease/(increase) in inventories	—	—
Decrease/(increase) in trade and other receivables	(390)	(326)
(Decrease)/increase in trade and other payables	1,865	2,372
Cash generated from operations	14,559	4,878
Income taxes paid	(344)	(513)
Net cash from operating activities	14,215	4,365
Cash flows from investing activities		
Interest paid	(909)	(407)
Acquisition of subsidiaries net of cash acquired	(22,436)	(12,719)
Purchase of intangible assets	(39)	(26)
Sale of property, plant and equipment	—	—
Purchase of property, plant and equipment	(26)	(11)
Net cash used in investing activities	(23,410)	(13,163)
Cash flows from financing activities		
Dividends paid	(1,837)	(1,461)
Dividends received	—	—
Share capital issued	—	174
Payments made for share repurchases	—	(61)
Increase in bank loan	11,500	3,950
Repayment of borrowings	(2,750)	—
Issue of convertible loan note	7,294	—
Net cash from financing activities	14,207	2,602
Net (decrease)/increase in cash and cash equivalents	5,012	(6,196)
Cash and cash equivalents at beginning of year	(706)	5,490
Cash and cash equivalents at end of year	4,306	(706)
Cash and cash equivalents		
Cash at bank and in hand	4,306	—
Short-term borrowings	—	(706)
Cash and cash equivalents	4,306	(706)

The Notes on pages 35 to 63 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2018

1. Nature of operations and general information

AdEPT is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity and voice solutions focused on enterprise business customers, public sector and healthcare customers. The Company provides a complete communications portfolio of unified communications, IP telephony, IT services, equipment installation, managed services, WiFi, IT and communications hardware and data connectivity products.

AdEPT is incorporated under the Companies Act and domiciled in the UK and the registered office is located at One Fleet Place, London EC4M 7WS. 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 IFRSs 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 29 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 that were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and IFRS 16 "Leases" and IFRS 9 "Financial Instruments" were considered to be relevant.

The directors have considered the application of IFRS 16 and IFRS 9, once effective, and do not consider that they will have a material impact on the net assets or retained profits of the Group.

The Group has commenced a detailed assessment to determine the impact of adopting IFRS 16, which introduces for certain lease contracts significant changes to the allocation of the costs in the statement of comprehensive income but it is not expected to have a material impact on profit before tax. It is also expected that the recognition of lease assets and liabilities will increase the gross value of assets and liabilities but the impact on net assets will not be material. This assessment is ongoing and the Board will update the shareholders on the impact on transition, and on our ongoing accounting policy, during 2018 as appropriate.

Adoption of the other standards and interpretations is 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 5 of the financial statements.

Revenue

The Group has early adopted IFRS 15 "Revenue from Contracts with Customers" with a date of initial application of 1 April 2017 which has been applied in respect of data circuit installation and rental; further details are included in Note 4. The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognised when it transfers control over a product or service to a customer to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods and equipment was recognised when the significant risks and rewards of ownership had been transferred to the customers, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably. Revenue from rendering of services was recognised in proportion to the stage of completion of the work at the reporting date.

Notes to the financial statements *continued*

For the year ended 31 March 2018

2. Accounting policies *continued*

Revenue *continued*

The following is a description of the principal activities from which the Group generates its revenue.

Segment	Product/service	Nature, timing of satisfaction of performance obligations and significant payment terms
Fixed line services	Calls and line rental	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. The performance obligations of calls and line rental services are fulfilled in the month in which the services are consumed by customers. Customer payment terms are 14 days from invoice for call usage and line rental services.
Managed services	Data networks	Revenue arising from the provision of internet and other data connectivity services is recognised evenly over the periods in which the service is provided to the customer. Revenue from installation of data connectivity services is recognised evenly over the term of the customer contract. The performance obligations of data networks are fulfilled when the equipment is installed, the service has gone live and the associated data connectivity rental services are consumed by customers on a monthly basis. All equipment required for data connectivity services is covered by a standard manufacturer warranty which is provided back to back with customer terms. Customer payment terms are 14 days from invoice; installation charges (if applicable) are paid for upfront with the rental charges paid on a monthly, annual or quarterly basis.
Managed services	Sale of goods	Revenue from the sale of goods is recognised when the goods have been fully installed and the risks and rewards of ownership have passed to the customer. The performance obligations of the supply of goods and equipment are met when the goods have been delivered, configured and installed. All goods supplied are covered by a standard manufacturer warranty which is provided back to back with customer terms. Customer payment terms are 30 days from invoice date. A deposit of up to 33% is invoiced prior to delivery with the balance being invoiced once the equipment has been configured and installed.
Managed services	Support services	Support service revenues are recognised evenly over the customer's contractual period for which the charges relate. Support service charges which arise outside of the customer contracts are recognised in the month when the support service is provided. The performance obligations of support services are fulfilled in the month in which the services are consumed by customers. Customer payment terms are 14–30 days from invoice date; support services are invoiced and paid for up to twelve months in advance.

Where customer contracts have multiple components to be delivered (e.g. equipment rental and internet services), the revenue attributable to each component is calculated based on the fair value of each component.

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

2. Accounting policies *continued*

Goodwill

Goodwill is recognised separately as intangible assets and carried at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

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.

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
Software apps	–	Ten years straight line
Website	–	Five 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 lessees) 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. Full provision is made for any items older than six months. 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.

Notes to the financial statements *continued*

For the year ended 31 March 2018

2. Accounting policies *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and overdrafts.

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.

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 using an appropriate pricing model for which the assumptions are approved by the directors.

At each balance sheet date, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Trade and other receivables

Trade receivables, which generally have 14 to 30 day terms, are initially recognised at fair value and subsequently held at amortised cost. A provision for impairment of trade receivables is established for any amount due in 90 or more days or 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 uncollectable, it is written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off are credited to 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 21 and 29, 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 are 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.

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 within 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.

Estimating churn, discount rate and gross margins

For the remaining customer bases, the churn rates ranging between 3.0% and 13.5% are based upon actual historical churn rates of the revenue stream for each customer base.

For Centrix and Atomwide the net present value of the discounted future cash flows is based on the actual revenues of the acquired customer bases and applying the actual gross margins achieved by the businesses.

The discount rate of 7.2% (2017: 8.0%) 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 IFRSs 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 applied are based upon actual margins achieved by the customer bases in the current and previous years. The actual outcomes have been materially equivalent.

Estimating the useful life of customer bases

The main estimate used to conduct the impairment review is the churn rate (turnover of customers).

The average useful economic life of all the customer bases has been estimated at 14 years (2017: 15 years) with a range of ten to 30 years.

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 £Nil to £11.75m; further details are included in Note 28.

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 £122,455, £54,910 and £230,229 respectively.

More details, including carrying values, are included in Note 14.

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 19.

4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all presented in these consolidated financial statements.

The details and quantitative impact of the changes in accounting policies are disclosed below:

Data circuit installation and rental

The Group previously recognised the revenue for the installation of data circuits when the installation had been completed and the data circuit had gone live, and the revenue for the rental of the data circuit was recognised on a monthly basis across the contract period. Under IFRS 15, the total consideration receivable in respect of the data circuit, being the installation revenue plus the total value of the contracted monthly rental charges, is being spread evenly across the contract period.

Notes to the financial statements *continued*

For the year ended 31 March 2018

4. Changes in accounting policies *continued*

Data circuit installation and rental *continued*

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated financial statements for the year ended 31 March 2018:

£'000	As reported	Adjustments	Balances without adoption of IFRS 15
Assets			
Non-current assets			
Goodwill	14,531	—	14,531
Intangible assets	35,666	—	35,666
Property, plant and equipment	1,114	—	1,114
	51,311	—	51,311
Current assets			
Inventories	266	—	266
Trade and other receivables	5,867	—	5,867
Contract assets	423	(423)	—
Cash and cash equivalents	7,127	—	7,127
	13,683	(423)	13,260
Total assets	64,994	(423)	64,571
Current liabilities			
Trade and other payables	11,832	—	11,832
Contract liabilities	568	(568)	—
Income tax	199	(6)	193
	12,599	(574)	12,025
Non-current liabilities			
Deferred tax	5,590	—	5,590
Convertible loan instrument	6,011	—	6,011
Long-term borrowings	24,749	—	24,749
Total liabilities	48,949	(574)	48,375
Net assets	16,045	151	16,196
Equity attributable to equity holders			
Share capital	2,370	—	2,370
Share premium	479	—	479
Retained earnings	13,196	151	13,347
Total equity	16,045	151	16,196

4. Changes in accounting policies *continued*

Data circuit installation and rental *continued*

£'000	As reported	Adjustments	Balances without adoption of IFRS 15
Revenue	**46,434**	18	**46,452**
Cost of sales	**(23,515)**	(47)	**(23,562)**
Gross profit	**22,919**	(29)	**22,890**
Administrative expenses	**(16,838)**	—	**(16,838)**
Operating profit	**6,081**	(29)	**6,052**
Finance costs	**(1,561)**	—	**(1,561)**
Profit before income tax	**4,520**	(29)	**4,491**
Income tax expense	**(584)**	6	**(578)**
Profit for the year	**3,936**	(23)	**3,913**
Other comprehensive income	**—**	—	**—**
Total comprehensive income	**3,936**	(23)	**3,913**

The Group has recognised the cumulative effect of initially applying IFRS 15 with an opening adjustment to equity of £173,904 at 1 April 2017. The net impact on profit before tax of applying IFRS 15 in the year ended 31 March 2018 was £23,051, resulting in a net adjustment to retained earnings at 31 March 2018 of £150,853.

Notes to the financial statements *continued*

For the year ended 31 March 2018

4. Changes in accounting policies *continued*

Data circuit installation and rental *continued*

£'000	As reported	Adjustments	Balances without adoption of IFRS 15
Cash flows from operating activities			
Profit before income tax	4,520	(29)	4,491
Depreciation and amortisation	4,148	—	4,148
Share-based payments	40	—	40
Net finance costs	1,561	—	1,561
Operating cash flows before movements in working capital	10,269	(29)	10,240
Decrease/(increase) in inventories	(39)	—	(39)
Decrease/(increase) in trade and other receivables	479	47	526
(Decrease)/increase in trade and other payables	(972)	(18)	(990)
Cash generated from operations	9,737	—	9,737
Income taxes paid	(1,501)	—	(1,501)
Net cash from operating activities	8,236	—	8,236
Cash flows from investing activities			
Interest paid	(907)	—	(907)
Acquisition of subsidiaries net of cash acquired	(14,523)	—	(14,523)
Purchase of intangible assets	(54)	—	(54)
Purchase of property, plant and equipment	(364)	—	(364)
Net cash used in investing activities	(15,848)	—	(15,848)
Cash flows from financing activities			
Dividends paid	(1,837)	—	(1,837)
Issue of convertible loan note	7,294	—	7,294
Increase in bank loan	11,500	—	11,500
Repayment of borrowings	(2,750)	—	(2,750)
Net cash from financing activities	14,207	—	14,207
Net (decrease)/increase in cash and cash equivalents	6,595	—	6,595
Cash and cash equivalents at beginning of year	532	—	532
Cash and cash equivalents at end of year	7,127	—	7,127

The impact of the adoption of IFRS 15 on basic and adjusted earnings per share is not material.

5. 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, 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 2018				Year ended 31 March 2017			
£'000	Fixed line services	Managed services	Central costs	Total	Fixed line services	Managed services	Central costs	Total
Revenue	14,001	32,433	—	46,434	15,365	19,071	—	34,436
Gross profit	5,439	17,480	—	22,919	6,074	8,497	—	14,571
Gross margin %	38.8%	53.9%	—	49.4%	39.5%	44.6%	—	42.3%
Administrative expenses	(2,562)	(10,586)	—	(13,148)	2,687	4,057	—	6,744
Underlying EBITDA	2,877	6,894	—	9,771	3,387	4,440	—	7,827
Underlying EBITDA %	20.5%	21.3%	—	21.0%	22.0%	23.3%	—	22.7%
Amortisation	(2,071)	(1,659)	—	(3,730)	(1,907)	(575)	—	(2,482)
Depreciation	—	—	(418)	(418)	—	—	(279)	(279)
Revaluation of deferred consideration	—	—	(28)	(28)	—	—	—	—
Acquisition costs	—	—	(229)	(229)	—	—	(703)	(703)
Compensation credits	—	—	755	755	—	—	—	—
Share-based payments	—	—	(40)	(40)	—	—	(31)	(31)
Operating profit/(loss)	806	5,236	39	6,081	1,480	3,865	(1,013)	4,332
Finance costs	—	—	(1,561)	(1,561)	—	—	(928)	(928)
Income tax	—	—	(584)	(584)	—	—	(655)	(655)
Profit/(loss) after tax	806	5,236	(2,106)	3,936	1,480	3,865	(2,596)	2,749

During the year the Group received compensation from Openreach following its misuse of the deemed consent process in relation to installation of data circuits. This compensation relates to service credits for a large number of data circuits across a number of financial periods. The value of the compensation received by the Group has been excluded from the calculation of managed services gross margin and underlying EBITDA as it does not relate to the current year and it is not a reflection of the underlying profitability of the Group.

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 2017 or 2018.

Notes to the financial statements *continued*

For the year ended 31 March 2018

6. Revenue

In the following table, revenue is disaggregated by major product/service lines and timing of revenue recognition. All revenue is derived from the UK.

	2018 £'000	2017 £'000
Sale of goods	**10,003**	4,698
Provision of services:		
– calls and line rental	**14,481**	15,874
– data networks	**9,731**	8,501
– support services	**8,847**	2,046
– other services	**3,372**	3,317
	46,434	34,436
Timing of revenue recognition		
Products transferred at a point in time	**10,003**	4,698
Products and services transferred over time	**36,431**	29,738
	46,434	34,436

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method the comparative information is not restated.

The following table provides information about receivables, contract assets and contract liabilities with customers:

	2018 £'000	2017 £'000
Receivables, which are included in 'Trade and other receivables'	**3,987**	3,738
Contract assets	**423**	—
Contract liabilities	**(568)**	—

Contract assets relate to the deferred direct costs in respect of data circuit installations which have been completed and are being recognised across the customer's contractual term to which the installation relates. The contract liabilities relate to the deferred revenue in respect of data installations which have been completed and the revenue is being recognised across the term of the customer contract.

Significant changes in the contract assets and contract liabilities balances during the period are as follows:

	2018 £'000	2017 £'000
Revenue deferred into future periods	**(568)**	—
Deferred revenue recognised in the period	**18**	—
Direct costs deferred into future periods	**423**	—
Deferred direct costs recognised in the period	**(47)**	—

The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance at 1 April 2017.

The performance obligations of the underlying contracts to which the contract assets relate are expected to be met over periods of up to five years. However, the performance obligations for all revenues and costs that have been deferred into future periods have been satisfied at the year end, as these relate to the installation and equipment of data networks which have been completed and the service is being used by the customer.

There are no impairment losses in relation to the contract assets recognised under IFRS 15.

7. Operating profit

The operating profit is stated after charging:

	2018 £'000	2017 £'000
Amortisation of customer base, billing system and licence	3,730	2,482
Depreciation of tangible fixed assets:		
– owned by the Group	418	279
Share option expense/(credit)	40	31
Minimum operating lease payments:		
– land and buildings	466	575
– motor vehicles and other equipment	76	110
Acquisition costs	230	703
Compensation credit	755	—

8. Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	36	35
Fees payable to the Group's auditor and its associates in respect of:		
– audit of subsidiaries	52	31
– other services relating to taxation	20	17

9. Finance costs

	2018 £'000	2017 £'000
On bank loans and overdrafts	1,122	424
Bank fees	136	182
Finance cost on contingent consideration	303	322
	1,561	928

The finance costs on contingent consideration arise from the release of the discounted contingent consideration liability evenly across the term of the deferred consideration period in relation to each acquisition. This is a non-cash item.

10. Employee costs

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

	2018 £'000	2017 £'000
Wages and salaries	8,296	4,141
Social security costs	960	483
Share option expense	40	31
Other pension costs	114	51
	9,411	4,706

Notes to the financial statements *continued*

For the year ended 31 March 2018

10. Employee costs *continued*

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

	2018 Number	2017 Number
Non-executive directors	3	2
Administrative staff	176	87
	179	89

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.

11. Income tax expense

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profit for the year	1,428	1,300
Adjustments in respect of prior periods	(325)	32
Total current tax	1,103	1,332
Deferred tax		
Origination and reversal of timing differences:		
– fixed assets	(22)	(4)
– share options	(3)	(10)
– goodwill on business combinations	(506)	(633)
Adjustments in respect of prior periods	12	(30)
Total deferred tax (see Note 16)	(519)	(677)
Total income tax expense	584	655

Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 19% (2017: 20%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2018 £'000	2017 £'000
Profit before income tax	4,520	3,404
Tax rate	19%	20%
Expected tax charge	859	681
Expenses not deductible for tax purposes	126	254
Adjustments to tax charge in respect of prior periods	(313)	2
Depreciation/amortisation on non-qualifying assets	13	(2)
Unprovided deferred tax movement	—	3
Difference due to deferred tax rate being lower than the standard tax rate	63	(272)
Share option relief	—	(11)
R&D enhanced tax deduction	(95)	—
RDEC credit taxed	3	—
Prior year IFRS 15 adjustment	(33)	—
Group relief claim	(29)	—
Other	(10)	—
Actual tax expense net	584	655

The change in income tax rates will affect future tax charges.

12. Dividends

On 30 September 2017 the directors approved an interim dividend of 4.25p per ordinary share (2017: 3.75p), which was paid to shareholders on 7 April 2018. On 5 April 2018 the directors proposed a final dividend, subject to shareholder approval at the 2018 annual general meeting, of 4.50p per ordinary share (2017: 4.00p). Total dividends proposed in respect of the year ended 31 March 2018 will absorb £2,073,910 of shareholders' funds in future periods (2017: £1,836,892).

On 7 April 2017 the Company paid dividends of £888,818 in relation to the interim dividend declared in September 2016. On 10 October 2017 the Company paid dividends of £948,074 in relation to the final dividend declared in March 2017. Total dividends paid in the year ended 31 March 2018 absorbed £1,836,892 of cash (2017: £1,461,467).

13. Goodwill

Group

	Total £'000
Cost	
At 1 April 2016	5,698
Additions	7,603
At 1 April 2017	13,301
Additions	3,313
At 31 March 2018	**16,615**
Impairment	
At 1 April 2016	(2,084)
Impairment charge	—
At 1 April 2017	(2,084)
Impairment charge	—
At 31 March 2018	**(2,084)**
Net book value	
At 31 March 2018	**14,531**
At 31 March 2017	11,217

The goodwill is split by cash-generating units as follows:

	March 2018 £'000	March 2017 £'000
Centrix Limited	**3,614**	3,614
Comms Group UK Limited	**2,672**	2,672
CAT Communications Limited	**248**	248
Our IT Department Limited	**4,683**	4,683
Atomwide Limited	**3,313**	—

The assumptions are set out in Note 3. The net present value of the future cash flows for some of the cash-generating units is sensitive to the weighted average cost of capital. The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital of 7.18%. An increase in the Group's weighted average cost of capital to above 10.9% would materially impair the carrying value of the Group's goodwill by more than £400,000.

An increase to the weighted average cost of capital may lead to impairment of goodwill; further details of the sensitivity of the variables used in the impairment testing are included in Note 3.

Notes to the financial statements *continued*

For the year ended 31 March 2018

14. Intangible fixed assets

Group

	Licence £'000	Computer software £'000	Customer base £'000	Software apps £'000	Website £'000	Total £'000
Cost						
At 1 April 2016	26	1,274	40,444	—	—	41,744
Additions	—	26	6,111	—	1,744	7,881
Acquired with subsidiary	—	—	1,703	—	—	1,703
At 1 April 2017	26	1,300	48,295	—	1,744	51,365
Additions	15	39	7,248	3,535	—	10,837
Acquired with subsidiary	—	—	—	—	—	—
At 31 March 2018	**41**	**1,339**	**55,543**	**3,535**	**1,744**	**62,202**
Amortisation						
At 1 April 2016	26	1,112	19,186	—	—	20,324
Charge for the year	—	88	2,208	—	—	2,296
Impairment charge	—	—	186	—	—	186
At 1 April 2017	26	1,200	21,580	—	—	22,806
Charge for the year	2	83	2,947	236	249	3,517
Impairment charge	—	—	213	—	—	213
At 31 March 2018	**28**	**1,283**	**24,740**	**236**	**249**	**26,536**
Net book value						
At 31 March 2018	**13**	**56**	**30,803**	**3,299**	**1,495**	**35,666**
At 31 March 2017	—	100	26,715	—	1,744	28,559

Included within the Group's intangible assets is:

	Useful life	**March 2018 £'000**	March 2017 £'000
Centrix Limited	30 years	**7,664**	7,946
Comms Group UK Limited	17 years	**4,331**	4,662
Our IT Department Limited	17 years	**2,999**	3,281
CAT Communications Limited	10 years	**1,055**	1,289
Atomwide Limited – customer base	16 years	**6,751**	—
Atomwide Limited – software/apps	5 years	**3,299**	—
Other customer bases – AdEPT Telecom plc trading business	10–16 years	**9,497**	11,281

14. Intangible fixed assets *continued*

Company

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2016	26	1,274	32,045	33,345
Additions	—	26	—	26
At 1 April 2017	26	1,300	32,045	33,371
Additions	—	39	—	39
At 31 March 2018	**26**	**1,339**	**32,045**	**33,410**
Amortisation				
At 1 April 2016	26	1,112	18,952	20,090
Charge for the year	—	88	1,631	1,719
Impairment charge	—	—	186	186
At 1 April 2017	26	1,200	20,769	21,995
Charge for the year	—	83	1,661	1,744
Impairment charge	—	—	176	176
At 31 March 2018	**26**	**1,283**	**22,606**	**23,915**
Net book value				
At 31 March 2018	**—**	**56**	**9,439**	**9,495**
At 31 March 2017	—	100	11,276	11,376

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 2018 the net present value of future cash flows of certain cash-generating units was below the carrying value and an impairment charge of £212,850 (2017: £185,583) has been recorded in respect of four cash-generating units.

The useful lives of the customer base intangible assets are determined by reference to the actual historical churn rates of the revenue stream for each customer base acquired. Sensitivity of the assumptions is included in Note 3.

The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital of 7.18%. An increase in the Group's weighted average cost of capital to above 11.4% would materially impair the carrying value of the Group's intangible assets by more than £400,000.

	Book value of cash-generating unit £'000	Estimated value in use £'000
Centrix Limited	7,664	22,420
Comms Group UK Limited	4,331	6,212
Our IT Department Limited	2,999	3,957
CAT Communications Limited	1,055	1,473
Atomwide Limited – customer base	3,299	3,417
Atomwide Limited – software/apps	6,751	9,091

Notes to the financial statements *continued*

For the year ended 31 March 2018

15. Investments in subsidiaries

Company

	Company £'000	Total £'000
Cost		
At 1 April 2016	11,846	11,846
Additions	16,157	16,157
Disposals	(1,461)	(1,461)
At 1 April 2017	26,542	26,542
Additions	19,728	19,728
Disposals	—	—
At 31 March 2018	**46,270**	**46,270**
Amounts written off		
At 1 April 2016	—	—
Written off during the year	—	—
At 1 April 2017	—	—
Written off during the year	—	—
At 31 March 2018	**—**	**—**
Net book value		
At 31 March 2018	**46,270**	**46,270**
At 31 March 2017	26,542	26,542

Details of the principal subsidiaries of the Company are included in Note 31 to the financial statements.

16. 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 2016	105	7	338	548	998
Acquired with subsidiary	—	—	11	461	472
Additions	—	—	1	145	146
Disposals	—	—	—	(62)	(62)
At 1 April 2017	105	7	350	1,092	1,554
Acquired with subsidiary	43	256	88	66	453
Additions	—	—	9	355	364
Disposals	—	—	—	(271)	(271)
At 31 March 2018	**148**	**263**	**447**	**1,242**	**2,100**
Depreciation					
At 1 April 2016	4	7	152	311	474
Charge for the year	26	—	56	197	279
Disposals	—	—	—	(62)	(62)
At 1 April 2017	30	7	208	446	691
Charge for the year	38	14	70	295	417
Disposals	—	—	—	(122)	(122)
At 31 March 2018	**68**	**21**	**278**	**619**	**986**
Net book value					
At 31 March 2018	**80**	**242**	**169**	**623**	**1,114**
At 31 March 2017	75	—	142	646	863

Notes to the financial statements *continued*

For the year ended 31 March 2018

16. Property, plant and equipment *continued*

Company

	Motor vehicles £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost					
At 1 April 2016	105	7	208	346	666
Additions	—	—	—	10	10
Disposals	—	—	—	—	—
At 1 April 2017	105	7	208	356	676
Additions	—	—	7	19	26
Disposals	—	—	—	—	—
At 31 March 2018	**105**	**7**	**215**	**375**	**702**
Depreciation					
At 1 April 2016	4	7	146	305	462
Charge for the year	26	—	24	27	77
Disposals	—	—	—	—	—
At 1 April 2017	30	7	170	332	539
Charge for the year	27	—	24	17	68
Disposals	—	—	—	—	—
At 31 March 2018	**57**	**7**	**194**	**349**	**606**
Net book value					
At 31 March 2018	**48**	**—**	**21**	**26**	**95**
At 31 March 2017	75	—	38	24	137

17. Deferred taxation

	2018 Group £'000	**2018 Company £'000**	2017 Group £'000	2017 Company £'000
At 1 April 2017	**(4,057)**	**43**	(3,041)	106
Income statement credit/(charge)	**519**	**18**	700	6
Movement in deferred tax on share options taken to equity	**19**	**19**	(69)	(69)
Deferred tax provision on convertible loan note taken to equity	**(220)**	**(220)**	—	—
Deferred tax acquired	**(22)**	**—**	—	—
Deferred tax on business combination	**(1,829)**	**—**	(1,646)	—
At 31 March 2018	**(5,590)**	**(140)**	(4,057)	43

The deferred tax (liability)/asset is made up as follows:

	2018 Group £'000	**2018 Company £'000**	2017 Group £'000	2017 Company £'000
Capital allowances	**(49)**	**9**	(7)	6
Short-term timing differences	**33**	**16**	17	16
Convertible loan note equity element	**(208)**	**(208)**	—	—
Deferred tax on business combinations	**(5,409)**	**—**	(4,088)	—
Share options	**43**	**43**	21	21
	(5,590)	**(140)**	(4,057)	43

18. Inventories

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Consumables	**266**	**1**	196	1

As at 31 March 2018, inventories of £100,171 (2017: £74,036) were fully provided for. During the year £26,135 has been recognised as an expense in the statement of comprehensive income.

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

19. Trade and other receivables

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Trade receivables	**3,955**	**1,015**	3,738	1,178
Other receivables	**53**	**7**	24	7
Income tax	**—**	**—**	—	—
Prepayments	**1,477**	**200**	1,432	291
Accrued income	**382**	**138**	320	212
	5,867	**1,360**	5,513	1,688

As at 31 March 2018, trade receivables of £121,298 (2017: £215,939) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired is as follows:

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
31–60 days	**903**	**108**	512	147
61–90 days	**213**	**4**	182	20
Over 90 days	**260**	**—**	162	—
	1,376	**112**	856	167

All debts which are older than 90 days relate to interim amounts in respect of large customer projects which have not yet fully completed and are considered to be fully recoverable on completion. The movement of the provision for impairment of trade receivables is as follows:

	Group £'000	Company £'000
At 1 April 2016	128	128
Receivables provided for during the year as uncollectable	87	1
At 1 April 2017	215	129
Receivables provided for during the year as uncollectable	—	47
Receivables collected during the year which were previously provided	(94)	—
At 31 March 2018	**121**	**176**

The creation and release of a provision for impaired receivables have 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.

Notes to the financial statements *continued*

For the year ended 31 March 2018

20. Trade and other payables

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Trade payables	2,292	608	1,706	617
Other taxes and social security costs	1,407	435	910	174
Other payables	44	34	67	54
Amounts owed to Group undertakings	—	3,222	—	2,065
Accruals and deferred income	3,729	1,046	3,630	1,009
Contingent consideration	4,360	4,360	6,736	6,736
	11,832	9,705	13,049	10,655

The contingent consideration liability of £4,359,527 (2017: £6,735,837) represents the year-end fair value of the contingent consideration liabilities arising on the acquisitions made during the 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. Further details are included in Note 29.

21. Long-term borrowings

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Between one and two years	—	—	—	—
Between two and five years	24,749	24,749	15,988	15,988
More than five years	6,011	6,011	—	—
Bank loans	30,760	30,760	15,988	15,988

The bank loan of £24,748,564 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.

Included in long-term borrowings is an amount of £6,011,728 which is the debt component of the convertible loan instrument from BGF. This loan instrument is sub-ordinated and sits behind the bank loan.

Details of the interest rates applicable to the borrowings are included in Note 29.

Included within bank loans are arrangement fees amounting to £251,435 (2017: £261,635) which are being released over the term of the loan in accordance with IAS 39.

22. Share capital

	2018 £'000	2017 £'000
Authorised		
65,000,000 ordinary shares of 10p each	6,500	6,500
Allotted, called up and fully paid		
23,701,832 (2017: 23,701,832) ordinary shares of 10p each	2,370	2,370

Movement in shares in issue

	31 March 2018	31 March 2017
Ordinary shares of 10p each	23,701,832	22,484,108
Issued upon exercise of share options and warrants	—	1,236,860
Shares repurchased and cancelled	—	(19,136)
	23,701,832	23,701,832

22. Share capital *continued*

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 2018 the Company repurchased no shares (2017: 19,136 at an average price of 318p).

Share options

At 31 March 2018, the following options and warrants over the shares of AdEPT were in issue:

	2018		2017	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at 1 April	392,500	228p	1,469,840	49p
Granted during the year	2,095,910	386p	159,520	228p
Exercised during the year	—	—	(1,236,860)	14p
Outstanding at 31 March	**2,488,410**	**361p**	392,500	228p

The weighted average remaining contractual life of share options and warrants at 31 March 2018 was two 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:

	2018	2017
Risk-free interest rate	1.68%	0.50%
Expected volatility	17.0%	28.0%
Expected option life (years)	3.0	3.0
Expected dividend yield	2.7%	2.3%
Weighted average share price	335p	229p
Weighted average exercise price	335p	229p
Weighted average fair value of options granted	32p	31p

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 2.7%; 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 2018 No. of options	31 March 2017 No. of options
21 January 2009	11	3.0	—	—
23 August 2013	126	3.0	—	—
1 March 2016	222	3.0	240,000	240,000
1 October 2016	238	3.0	152,500	152,500
1 August 2017	335	3.0	2,095,910	—
			2,488,410	392,500

The closing price of the ordinary shares on 31 March 2018 was 325p and the range during the year was 118p.

23. Pension commitments

At 31 March 2018 there were no pension commitments (2017: £Nil).

Notes to the financial statements *continued*

For the year ended 31 March 2018

24. Operating lease commitments

At 31 March 2018 the lease commitments were as follows:

Group

	Land and buildings		Other	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Within one year	**414**	382	**61**	58
Between two and five years	**948**	413	**38**	52

Company

	Land and buildings		Other	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Within one year	**29**	172	**37**	43
Between two and five years	**—**	29	**22**	41

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 7.

25. Operating lease rentals

At 31 March 2018 the lease rental commitments outstanding from customers were as follows:

Group

	Land and buildings		Other	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Within one year	**—**	—	**117**	115
Between two and five years	**—**	—	**79**	112

Company

	Land and buildings		Other	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Within one year	**—**	—	**—**	—
Between two and five years	**—**	—	**—**	—

Other

The Company leases various telecommunications equipment to customers under non-cancellable operating lease agreements. The lease terms are three years.

The lease income is included within the operating segment 'managed services' (see Note 4) and recognised in the income statement evenly during the term of the agreement.

26. Related party transactions

During the year dividends were paid to the following directors:

	2018 £	2017 £
I Fishwick	73	78
R Wilson	47	51
D Lukic	2	3
C Kingsman	291	—
R Burbage	16	7
J Swaite	6	5

There is no ultimate controlling party.

Transactions between the Company and its subsidiaries are as follows:

Provision of services from related parties

	31 March 2018 £'000	31 March 2017 £'000
Our IT Department Limited	35	—

Amounts due to subsidiaries

	31 March 2018 £'000	31 March 2017 £'000
Centrix Limited	1,168	1,008
Comms Group UK Limited	950	1,550
Brightvision Limited	—	605
Atomwide Limited	1,201	—
	3,319	3,163

Amounts due from subsidiaries

	31 March 2018 £'000	31 March 2017 £'000
Our IT Department Limited	97	1,097

Intra-Group dividends of £10,200,000 were paid to AdEPT Telecom plc from the subsidiary companies during the year (2017: £Nil). These dividends are included in the company profit for the year but are eliminated upon consolidation.

27. Capital commitments

At 31 March 2018 there were capital commitments of £Nil (2017: £Nil).

Notes to the financial statements *continued*

For the year ended 31 March 2018

28. Earnings per share

Earnings per share is calculated on the basis of a profit of £3,936,054 (2017: £2,749,130) divided by the weighted average number of shares in issue for the year of 23,701,832 (2017: 22,585,580). 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 24,052,460 (2017: 23,768,178).

Adjusted earnings per share is used to reflect the non-cash nature of certain items which are charged to the income statement and the non-trading items, such as acquisition costs, to give a better indicator of the underlying cash generation of the Group. Adjusted earnings per share is calculated by adding back amortisation of intangible assets, impairment of goodwill, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, share option charges, revaluation of deferred consideration and acquisition costs and excluding compensation credits from retained earnings, giving £6,660,491 (2017: £5,213,923). This is divided by the same weighted average number of shares as above.

	2018 £'000	2017 £'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to equity holders	**3,936**	2,749
Add: amortisation	**3,730**	2,482
Less: taxation on amortisation of purchased customer contracts	**(121)**	(118)
Less: deferred tax credit on amortisation charges	**(506)**	(633)
Add: share option charges	**40**	31
Add: revaluation of deferred consideration	**28**	—
Add: acquisition costs	**229**	703
Less: compensation credits	**(755)**	—
Add: interest unwind on loan note	**79**	—
Adjusted profit attributable to equity holders	**6,661**	5,214
Number of shares		
Weighted average number of shares used for earnings per share	**23,701,832**	22,585,580
Weighted average dilutive effect of share plans	**350,628**	1,182,598
Diluted weighted average number of shares	**24,052,460**	23,768,178
Earnings per share		
Basic earnings per share	**16.61p**	12.17p
Diluted earnings per share	**16.36p**	11.57p
Adjusted earnings per share		
Adjusted basic earnings per share	**28.10p**	23.09p
Adjusted diluted earnings per share	**27.69p**	21.94p

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, deferred tax credits on amortisation charges, share option charges, revaluation of deferred consideration and acquisition costs and excluding compensation credits) by the weighted average number of ordinary shares in issue.

29. 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.

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Loans and receivables at amortised cost				
Cash and cash equivalents	7,127	4,305	1,238	—
Loans and receivables	3,955	1,015	3,912	1,352
	11,082	5,320	5,150	1,352
Financial liabilities at amortised cost				
Liabilities at amortised cost	33,051	31,367	18,400	17,312
Financial liabilities at fair value				
Contingent consideration	4,360	4,360	6,426	6,426
	37,411	35,727	24,826	23,738
Amounts due for settlement				
Within twelve months	6,651	4,967	8,838	7,750
After twelve months	30,760	30,760	15,988	15,988
	37,411	35,727	24,826	23,738

On 2 February 2017 the Company signed a new five year £30m revolving credit facility agreement with Barclays Bank plc and Royal Bank of Scotland plc. The revolving credit facility bears interest at 1.85–2.30% over LIBOR on drawn funds, dependent upon the net debt to EBITDA ratchet, and is repayable in full on the final repayment date of 2 February 2022.

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 and Royal Bank of Scotland plc have 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 banks also hold a charge over the life assurance policy of Ian Fishwick, director of the Company, for £1,500,000.

In August 2017 the Group raised £7,293,726 in the form of a convertible loan instrument from BGF to part fund the acquisition of Atomwide. The convertible loan instrument is excluded from the leverage calculations by the senior debt partners, Barclays and RBS. The Group has applied the principles of IAS 32 and IAS 39 in the recognition and measurement of the convertible loan. The net present value of the loan of £7,090,201 has been split between the debt and equity components and an amount of £1,158,317 has been recorded in equity, with £5,931,883 being included within long-term debt.

BGF has the right to convert the loan to 1,855,910 ordinary shares at a share price of £3.93 per share at anytime. The loan instrument can be redeemed by the Company from the third anniversary. The convertible loan instrument bears an interest rate of 7%. In addition, the transaction costs with a net present value of £203,526 are being recognised in the interest charge in the income statement across the term of the convertible instrument.

Notes to the financial statements *continued*

For the year ended 31 March 2018

29. Financial instruments *continued*

Contingent consideration obligations

At 31 March 2017 a financial liability of £4,359,527 has been recognised in respect of the fair value of the contingent consideration due in respect of the acquisitions of:

	Fair value as at					
	31 March 2017 £'000	**31 March 2018 £'000**	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Comms Group UK Limited	3,434	**—**	Level 3	Based upon a multiple of gross margin calculated by the growth rate over a period of twelve months.	Growth rate being the gross margin increase as measured by actual increase of gross margin over a twelve month period.	The higher the growth rate the higher the multiple. The higher the gross margin the higher the earn out.
CAT Communications Limited	508	**—**	Level 3	Based upon a multiple of gross margin calculated by the growth rate over a period of twelve months.	Growth rate being the gross margin increase as measured by actual increase of gross margin over a twelve month period.	The higher the growth rate the higher the multiple. The higher the gross margin the higher the earn out.
Our IT Department Limited	2,785	**3,654**	Level 3	The contingent consideration was based upon a multiple of EBITDA calculated over a period of twelve months.	Measured by actual EBITDA over a twelve month period.	The higher the EBITDA the higher the earn out.
Atomwide Limited	—	**706**	Level 3	Based upon a multiple of gross margin calculated by the growth rate over a period of twelve months.	Growth rate being the gross margin increase as measured by actual increase of gross margin over a twelve month period.	The higher the growth rate the higher the multiple. The higher the gross margin the higher the earn out.

All contingent consideration is subject to the maximum value as stated in the share purchase agreement. The net fair value of the estimated deferred consideration liability at 31 March 2018 is not materially different to that of the net values estimated at the date of acquisition. The discount charge which has been recognised as an expense in the statement of comprehensive income in relation to the deferred consideration liability is disclosed in Note 9 to these financial statements.

Reconciliation of the movement in the fair value of contingent consideration:

	Atomwide Limited £'000	Comms Group UK Limited £'000	CAT Communications Limited £'000	Our IT Department Limited £'000	Total £'000
At 1 April 2017	—	3,434	496	2,805	6,735
Additions/adjustment	640	—	(55)	671	1,256
Discounting of deferred consideration	66	23	37	178	304
Settled in cash	—	(3,457)	(478)	—	(3,935)
At 31 March 2018	**706**	**—**	**—**	**3,654**	**4,360**

The earn out for Atomwide Limited had not been achieved by 31 March 2018. The earn out for Our IT Department Limited was paid on 5 April 2018.

During the year total cash consideration of £14,522,818 was paid in respect of acquisitions, £3,934,239 was in respect of the settlement of deferred consideration and £10,588,579 was in respect of initial consideration (net of cash acquired).

The contingent consideration arising on the acquisition of Our IT is payable to a vendor who remained in employment in the business after acquisition. In accordance with the requirements of IFRS 3, management has considered the indicators therein and determined that the contingent amounts payable to the vendor represent consideration for the acquisition and not remuneration for post-acquisition services.

29. Financial instruments *continued*

Obligations under finance leases

As at 31 March 2018 the Group had no finance lease obligations.

Sensitivity analysis

At 31 March 2018 it was estimated that a movement of 1% in interest rates would impact the Group's profit before tax by approximately £0.2m.

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 2018, £7,293,726 of the Group's borrowings are at a fixed rate of interest (2017: 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 2018 was £11,081,483 (2017: £4,976,694).

Loans and receivables

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Trade receivables	3,955	1,015	3,738	1,178
Other receivables	53	7	21	7
Cash and cash equivalents	7,127	4,305	1,238	—
	11,135	5,327	4,997	1,185

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.

Amortised cost

Year ended 31 March 2018	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	—	—	24,749	6,011
Trade and other payables	2,336	—	—	—
	2,336	—	24,749	6,011

Year ended 31 March 2017	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	706	—	15,988	—
Trade and other payables	1,706	—	—	—
	2,412	—	15,988	—

Notes to the financial statements *continued*

For the year ended 31 March 2018

29. 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 EBITDA 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 (customer bases/ relationships) to reduce debt.

30. Business combinations

On 2 August 2017 the Company acquired the entire issued share capital of Atomwide Limited ('Atomwide') for an initial consideration of £12.0m plus the value of the surplus cash balance of Atomwide at completion (approximately £6.5m), payable in cash. Further contingent deferred consideration of between £Nil and £8.0m may be payable, also in cash, dependent upon the performance of Atomwide 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 contingent deferred consideration matrix as specified in the share purchase agreement. The fair value of contingent deferred consideration has been 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 £1.3m has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.1m being included within finance costs over the deferred consideration period as an interest charge. At 31 March 2018 the estimated deferred consideration was £0.7m, a credit of £0.6m has been recognised in the statement of total comprehensive income in respect of the movement on the deferred consideration liability. Total consideration is expected to be £12.7m (net of the surplus cash acquired).

Atomwide, founded in 1987, is an IT services provider with over 30 years' experience, offering specialised IT support services and technology solutions to approximately 2 million users in over 3,000 schools.

Atomwide is the chief technology partner for London Grid for Learning, supplying IT services to around 2,500 schools in London. The bespoke services have been created by the in-house development team and are supported by an experienced team of IT professionals based at Atomwide's premises in Orpington, Kent.

All of the senior management team, which is responsible for the strategic direction, technical development and day-to-day operations of Atomwide, have been retained within the business post-acquisition.

Details of the fair value of the assets acquired at completion and the consideration payable:

	Book cost £'000	Fair value £'000
Software applications	—	3,535
Customer base	—	7,223
Property, plant and equipment	453	453
Inventories	30	30
Trade and other receivables	1,524	1,524
Cash and cash equivalents	7,916	7,916
Trade and other payables	(2,710)	(2,710)
Income tax	273	273
Deferred tax	—	(1,829)
Net assets	**7,486**	**16,415**
Cash		(18,502)
Contingent cash consideration		(1,226)
Fair value total consideration		(19,728)
Goodwill		**3,313**

The trade and other receivables are all considered recoverable.

30. Business combinations *continued*

Atomwide contributed revenue and profit after tax of £5.59m and £0.80m respectively for the year ended 31 March 2018 and represents an eight month contribution. On a full year basis, Atomwide would have contributed revenue and profit after tax of £7.86m and £1.0m respectively. Acquisition related costs of £0.23m have been recognised as an expense in the statement of comprehensive income for the year ended 31 March 2018.

31. Subsidiaries

	Country	Registered office	Class of share	% shareholding	Description
AdEPT Technology Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Centrix Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Comms Group UK Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Our IT Department Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
BrightVisions Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Atomwide Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
CAT Communications Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
AdEPT Technology Group Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant

32. Subsequent events

There are no subsequent events after the balance sheet date.

Company information

Directors
Roger Wilson
Dusko Lukic
Ian Fishwick
John Swaite
Richard Burbage
Christopher Kingsman (appointed 8 November 2017)

Secretary
Maclay Murray & Spens LLP

Company number
4682431

Registered office
One Fleet Place
London EC4M 7WS

Contact details
T: 0844 5577300
E: business.services@adept-telecom.co.uk
W: www.adept-telecom.co.uk

Auditor
Crowe U.K. LLP
Chartered accountants and registered auditor
4 Mount Ephraim Road
Tunbridge Wells
Kent TN1 1EE

Bankers
Barclays Bank plc
1 Churchill Place
London E14 5HP

Nominated adviser and broker
Northland Capital Partners Limited
2nd Floor, 40 Gracechurch Street
London EC3V 0BT

Solicitors
Cripps LLP
22 Mount Ephraim
Tunbridge Wells
Kent TN4 8AS

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZY

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 PSTN
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 PSTN
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

Produced by

designportfolio

AdEPT Telecom plc
77 Mount Ephraim
Tunbridge Wells
Kent TN4 8BS

T: 844 5577300
F: 0844 5577301
E: business.services@adept-telecom.co.uk

www.adept-telecom.co.uk