



# Uniting technology, inspiring people

AdEPT Technology Group plc Annual report and accounts 2019



# It starts with a **connection**

We currently liberate thousands of organisations across the UK through the power of unified technology.

 [Discover more at adept.co.uk](https://adept.co.uk)

## Strategic report

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# Highlights

## Financial

- > 16th consecutive year of increased underlying EBITDA up 11% to £10.8m (2018: £9.8m)
- > Revenue increased by 11% to £51.3m (2018: £46.4m)
- > Gross margin % increased to 49.4% (2018: 47.7%)
- > Underlying EBITDA margin % of 21.0% (2018: 21.0%)
- > Adjusted profit before tax increased by 6% to £8.2m (2018: £7.8m)
- > 6% increase in adjusted fully diluted earnings per share to 29.6p (2018: 28.0p)
- > 12% increase in dividends declared to 9.80p (interim 4.90p; final 4.90p) (2018: 8.75p)
- > Year-end net senior debt of £27.1m (2018: £17.6m)
- > Capital expenditure 1% of revenue (2018: 1%)


## Operational

- > Managed services accounted for 75% of total revenue (2018: 70%)
- > Acquisition of entire issued share capital of Shift F7 Group Limited completed in August 2018
- > Acquisition of entire issued share capital of ETS Communications Holdings Limited in November 2018



### Our business model


AdEPT operates a highly cash-generative business model, which is focused on delivering resilient, unified IT and communications solutions to customers across the UK backed up by a high service level.

 [Discover more on page 6](#)



### Investment case

AdEPT is focused on increasing shareholder value through growth in earnings per share. This is being achieved through growth in underlying profitability and converting this to cash which is either being returned to shareholders via dividends or invested back in the business for future growth.

 [Discover more on page 3](#)

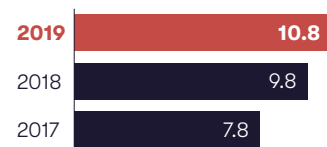
### Revenue

**£51.3m**  
**+11%**



### Underlying EBITDA

**£10.8m**  
**+11%**



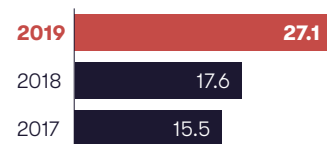
### Adjusted earnings per share

**29.6p**  
**+6%**



### Net senior debt

**£27.1m**



## At a glance

# What we do

We are one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, voice and cloud services.

**250+**  
Employees

**10**  
Operational  
locations



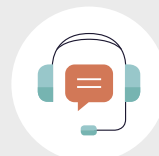
### Education

AdEPT has been supplying ICT solutions to schools and the wider education sector for 30 years. Whether it is web or email filtering, texting services, CCTV or VoIP phone systems, AdEPT produces and supports a whole host of dependable services for schools. Our team of 60 staff designs, creates and supports over 50 products and services specifically geared for the UK education sector.



### IT services

AdEPT has a team of over 150 IT and technical specialists to support our customers. The highly accredited IT team is responsible for designing customer enabling and cost effective solutions, providing high service levels in resilient cloud back-up, remote IT support, hosted email, antivirus and cyber security.



### Communications

AdEPT provides unified communications services to over 12,000 customers. Whether you have 10 staff or 10,000, we can unify your voice and data comms to help you focus on what you do best. Whether you are a single site or a national branch network, we have a solution for you backed up with an award-winning customer service team.

# Our key strengths

**1**

**One of only three AIM companies to increase earnings per share for ten consecutive years**

**2**

**Strong supply chain relationships with world-class partners**

**3**

**Award-winning UK technology solutions provider**

**4**

**Ideally positioned for the convergence between IT and communications**

**5**

**High (79%) proportion of recurring revenues, providing stable financials**

**6**

**Highly cash-generative business model with low capital requirements**

**7**

**Progressive dividend policy; c.33% free cash flow pay-out**



## Chairman's statement

# Delivering excellent results



**Ian Fishwick**  
Chairman

### Review of operations

The Group has been focused on the growth of managed service and IT revenues. The acquisitions of Shift F7 and ETS, combined with organic sales, have increased the rate of transition of the Group towards this strategic goal with managed services accounting for 75% of total revenue in the year ended 31 March 2019 (2018: 70%).

The acquisition of Shift F7, based in Dorking, in August 2018, gave us increased expertise in back-up and disaster recovery, with over 1,200 servers being backed up every night. Customers include Kent and Sussex Air Ambulance and a number of legal firms.

The acquisition of ETS, based in Wakefield, in November 2018, gave us extended geographical reach into Yorkshire for the first time. Customers include over 200 GP surgeries, taking Voice over IP solutions. ETS has been merged with our similar business in Northampton, Comms Group. This has given synergies in administrative functions, such as Finance and Billing.

The teams at Shift F7 and ETS have proved to be an excellent fit with AdEPT. In addition to providing geographical reach and proposition depth, they have also been working on delivering an infrastructure and support service which can be used across all companies in the Group.

Post year end, in April 2019, we acquired Advanced Computer Systems Group ('ACS Group') in Doncaster. This business specialises in providing IT support with a key focus on education, servicing over 200 schools in South Yorkshire. ACS Group will be merged with our Atomwide business.

### Public sector and healthcare

We have continued to have success in the public sector. In March 2016, the government set a target that 33% of public sector spend would be with SMEs by 2022. In March 2019 42% of total Group revenue was generated from public sector and healthcare customers (2018: 31%). AdEPT now has as customers over 100 councils, 18 NHS Trusts, more than 30 private hospitals, over 500 GP surgeries and clinical commissioning groups, over 20 universities, hundreds of colleges and 3,000+ schools along with services being provided to a number of central government departments.

In the year ended 31 March 2018 AdEPT Tunbridge Wells was awarded Health and Social Care Network (HSCN) compliance and is therefore authorised to sell data networks to the NHS. During the current year the Group successfully won the contract to design and roll out a super-fast network infrastructure across all departments of Kent NHS, which includes more than 400 sites across Kent including hospitals, hospices and GP surgeries. This highly complex project includes a variety of services under a wide area network solution, including managed firewalls, to provide a fully secure and resilient solution for Kent NHS – this solution has improved the speed of service whilst at the same time achieving a more economic price point. The implementation plan for delivery of the services under the contract with Kent NHS has seen roll-out in the latter months of the current period and therefore has no material impact on the current year revenue.

### Infrastructure

AdEPT has continued to carefully invest a relatively low amount of capital (1% of revenue) in the further development of AdEPT Nebula, our national MPLS network and hosting capability built upon three data centres. AdEPT Nebula is centred on the AdEPT owned data centre in Orpington, and is connected to two other London data centres to provide high levels of resilience. AdEPT Nebula allows AdEPT to provide its own cloud hosting capability. AdEPT Nebula is live and already delivering benefits to over a hundred customers by providing IP cloud telephony services, hosted IT services and a range of data connectivity services.

### Dividends

Our broad intention is to distribute roughly one-third of free cash flow as dividends and to reinvest the remaining two-thirds in the business. In order to ensure this policy is sustainable we wish to keep dividend cover above two times multiple. In line with its progressive policy, AdEPT has therefore increased the dividend year on year by 12%, proposing a final dividend of 4.90p per ordinary share (2018: 4.50p), making total dividends proposed in respect of the year ended 31 March 2019 of 9.80p per ordinary share (2018: 8.75p).

### Employees

As a result of the acquisitions completed in the year ended 31 March 2019 and the more recent acquisition of ACS in April 2019, the Group now has nearly 300 full-time employees. The increased 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 16 years and, on behalf of the Board, I would like to take this opportunity to thank all our employees for their continued hard work.

### Director changes

In December 2018 the Board announced that Phil Race had been appointed as an executive director and has subsequently been appointed chief executive from 1 January 2019, with myself Ian Fishwick becoming Chairman and Roger Wilson, the previous Chairman, being appointed Deputy Chairman at that time. I am pleased to welcome Phil as part of the Board at such an exciting time in the Company's history. Having Phil on board allows me to focus on acquisition opportunities, which I will continue to pursue with great passion and where I will continue

to work closely with him, whilst allowing him to handle the day-to-day operations of the Company. Over the coming year, Phil will move AdEPT to a single operation with new branding and a Group-wide website, a unified Customer Relationship Management and cross-Company Service Management platform.

In February 2019 the Board announced that Christopher Kingsman resigned as a non-executive director in order to focus his time on other investments and business interests. On behalf of the Board I would like to thank Christopher for his advice and encouragement and wish him well and we look forward to working with him as a shareholder. Through his investment vehicle, Greenwood Investments, Christopher remains our largest shareholder and further increased his stake in May 2019.

In June 2019, Richard Bligh was appointed to the Board. Richard was formerly chief operating officer of Gamma Communications plc and was instrumental in building that company to over £1 billion market capitalisation. Richard's knowledge of the UK technology market, and how to grow businesses, will be a great asset to AdEPT.


### Company name change

In October 2018 the Company announced a change of name to AdEPT Technology Group plc. Following the considerable progress in the transformation of the Group, particularly over the last four years, into a managed services and technology solutions provider, the Board considers that this company name is a more accurate reflection of the activities and expertise of the Group.

### 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 remaining focused on 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.

With a steady start, the Board looks forward to an exciting coming year and beyond. The focus for the coming year remains on developing organic sales through leveraging AdEPT's approved supplier status on the various public sector frameworks, encouraging further cross-Company collaboration and maintaining profitability and cash flow conversion, which will be used to either reduce net borrowings and/or fund suitable earnings-enhancing acquisitions.



**Ian Fishwick**  
Non-executive Chairman  
July 2019



## Our managed service platform

We currently liberate thousands of organisations across the UK through the power of unified technology.

AdEPT understands the challenge. That is why we developed AdEPT Nebula – an all-in-one industry-leading connectivity, voice and data platform that can handle all of your technology requirements.

AdEPT Nebula offers a diverse range of networking and communication solutions. Through our carrier-class MPLS network and a high availability IT infrastructure, you get a single provider so you can concentrate on your core business. This proven solution helps you focus on what is important through dedicated super-fast connectivity you can run everything else through – including internet, phones, WiFi, back-ups, IT support, storage, networking and CCTV.

Our nationwide carrier-class MPLS network offers hybrid, hosted and cloud services to suit your needs, allowing you to mix and match carriers to get the best connectivity wherever you are.

- > Multiple data centres providing scalability and resilience
- > Diverse internet through multiple tier-1 carriers
- > Peering with leading cloud providers
- > High availability SAN
- > Multi-site VMware environment for voice and IT services

AdEPT Nebula allows customers to securely connect a single site to the internet or join several sites together via private connections. It connects multiple offices and teams working apart to improve internal and external IT services and cut costs.

Our carrier-class MPLS core network peers with tier-1 partners for cloud, SIP, internet, broadband and fibre services. Whether it is configuring simple cost effective direct internet access or SIP connectivity, or designing multi-site, multi-service wide area networks, we have the right solution for you.

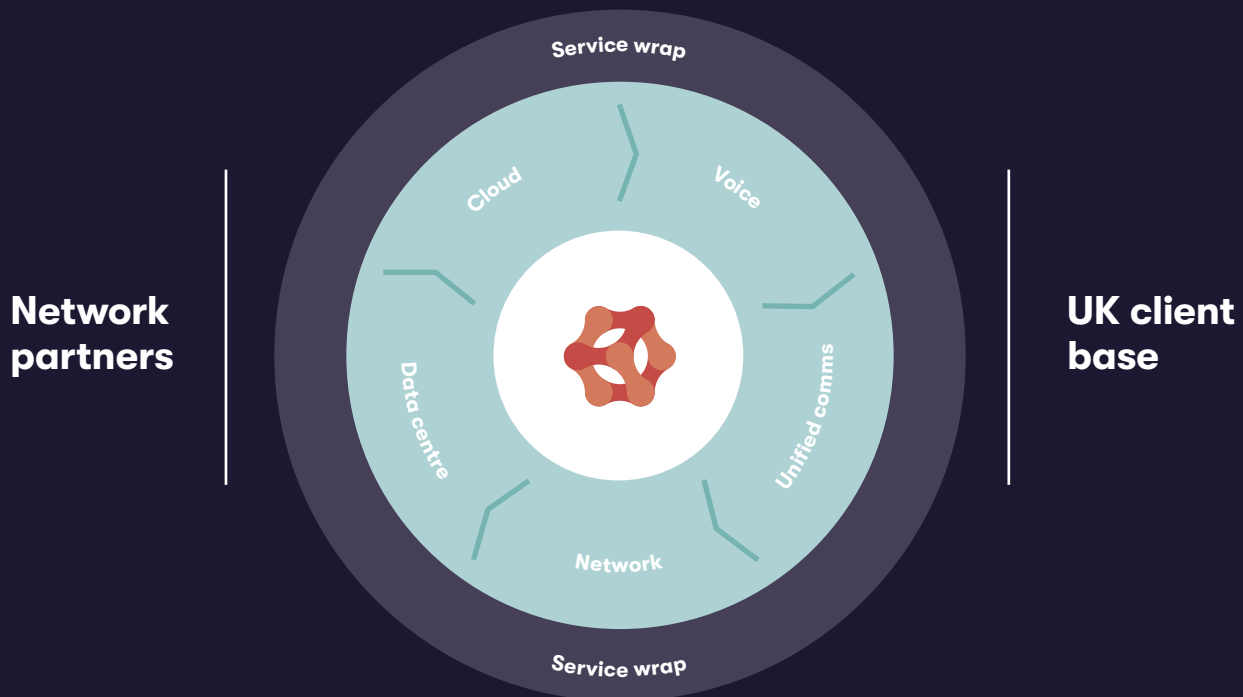
- > Cost effective – only pay for the bandwidth you use
- > Confident – get the best connectivity where you are, meaning faster speeds and better uptime
- > Ready – reliable support when you need it (defined within SLAs)
- > Flexible – contracts that let you pay as you go, and grow, to avoid unnecessary expense, while future-proofing your organisation
- > Safe – managed firewall, filtering and security options, helping keep users safe and business compliant
- > Your speed – internet and WAN connections from 10Mb to 1Gb+, using xDSL, copper or fibre technologies to your premises

More organisations are adopting cloud services to save on cost and improve flexibility. AdEPT Nebula supports this by providing access to public cloud providers like AWS, Azure and Google, as well as specialised cloud solution, software and infrastructure services.

But a 'total cloud' solution, is not always what our customers need. That is why we also offer on-premise to hosted and private cloud to public – all suited to your needs, scalable, future-proofed and delivered by a dedicated partner.

## Business model

# Uniting 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 fully unified communication and IT solution.



## Our market

# The market in which we operate

AdEPT is one of the UK's leading managed service providers, specialising in providing multi-product IT and unified communication solutions to multi-site and enterprise customers.

The Group is focused on the growth of managed services and IT revenues, accounting for 75% of total Group revenue. In the current financial year, we completed the acquisitions of Shift F7 and ETS Communications, which has increased expertise in back-up and disaster recovery and provided extended geographical reach into Yorkshire first the first time. In addition to providing geographical reach and proposition depth, they have also been part of the development team which has been creating an infrastructure and support service which can be used across all companies in the Group.

## 75%

Managed service revenue



### Key trends

The transition to cloud services is driving 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



### Emerging markets

Convergence of IT and communications is happening now.

Increasingly we are helping customers with converged IT and communications solutions, such as Skype for Business. All divisions within the AdEPT Group are supplying WiFi, data connectivity and hosted telephony solutions alongside specialist IT products and services remotely managing end user IT and communications equipment. Our product portfolio and team of professionals mean that we are ideally positioned for convergence.

**1+ billion**  
Web requests filtered every day



### Outlook

Our broad portfolio of products and services creates a large accessible market.

The focus for the Group remains on developing organic sales through leveraging approved supplier status on public sector frameworks, encouraging cross-Group collaboration and maintaining profitability and cash flow conversion. We will continue to invest in AdEPT Nebula to provide customers with an industry-leading connectivity, voice and IT service platform.

**18 NHS trusts**

Telecoms and IT partner for 18 NHS trusts and 100+ councils

## Our strategy

# Enabling expansion, investing in customer retention

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

1 2 3

AdEPT has successfully become one of the UK's leading independent managed service providers for IT and unified communications.

#### 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

- > Further investment in AdEPT Nebula to add new products to the portfolio, and successfully sold these into the customer base.
- > Continued development and enhancement of existing software apps, and successfully launched 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 IT service and connectivity products and introduce them to the portfolio.

**99.99%**  
Service availability

### Customers

1 2 3

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.

**86.5%**  
Net promoter score



## Frameworks

1 2 4

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

- > Successfully awarded contracts under the Crown Commercial Service RM3825 HSCN Access Services public sector framework agreement.
- > Leveraged our position on the other frameworks to bring in a 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.

# 42%

Of revenue from customers in the public and healthcare sector

## Acquisitions

1 2 3 4

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 Shift F7 and ETS Communications during the year.
- > Careful planning and rigorous operational and financial due diligence was undertaken to minimise integration and execution risk.
- > Successfully integrated ETS Communications into the Group, realising synergy savings.

### 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.

# £3.6m

Revenue generated from acquired companies

## Business review

# Continued progress



**John Swaite**  
Finance director

### 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 1 to 17.

### Summary of three year financial performance

|                   | Year ended March |                      |               |                      |               |
|-------------------|------------------|----------------------|---------------|----------------------|---------------|
|                   | 2019<br>£'000    | Year on<br>year<br>% | 2018<br>£'000 | Year on<br>year<br>% | 2017<br>£'000 |
| Revenue           | 51,308           | 10.5%                | 46,434        | 34.8%                | 34,436        |
| Gross margin      | 25,342           | 10.6%                | 22,919        | 57.3%                | 14,571        |
| Underlying EBITDA | 10,795           | 10.5%                | 9,771         | 24.8%                | 7,827         |
| Net senior debt   | 27,113           |                      | 17,622        |                      | 15,456        |

### Revenue

During the year AdEPT has continued to grow its managed services business. Total revenue generated from managed services represented 75.0% of total revenue in the year ended 31 March 2019 (2018: 69.8%).

Total revenue increased by 10.5% to £51.3m (2018: £46.4m):

- > Managed services product revenues increased by £6.1m to £38.5m (2018: £32.4m). This reflects the impact of the eight month contribution from the acquisition of Shift F7 and five month contribution from the acquisition of ETS, combined with an increased level of organic contract wins and a lower relative churn rate within the managed service customer base.

- > Traditional fixed line revenues were reduced to £12.8m (2018: £14.0m). The underlying reduction in the fixed line revenues 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 7.8% of total revenue in the year ended 31 March 2019 (2018: 10.0%).

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 78.6% of total revenue (2018: 78.4%). All of the managed service product sets include an element of 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 a number of HSCN contracts with NHS registered bodies during the year, to help with the replacement of the legacy N3 data network used by the NHS. AdEPT is an approved supplier to the Crown Commercial Service under the RM1045 Network Services Framework, RM3825 HSCN Access Services Framework and the RM3804 Technology Services 2 Framework and the Group has been successful in winning further new business through these frameworks. This is in addition to AdEPT's existing framework agreement with JISC, 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 41.5% at March 2019 (2018: 30.6%) which partly arises due to the contribution from the ETS acquisition as part of the acquired revenue stream is generated from its health sector customer base (GP surgeries) but also from the organic customer contract awards particularly under the various frameworks on which AdEPT is accredited.

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 the customer risk with a wide spread of business sectors and no particular customer concentration, with the top ten customers accounting for 24.6% of total revenue (2018: 22.3%) and no customer accounting for more than 10% of the total.

### Gross margin

Gross margin percentage has been maintained at 49.4% during the year (2018: 49.4% reported). The prior 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 related 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 the gross margin in the comparative period was 47.7%. The increase over the prior year largely arises due to a greater proportion of revenue from IT services. 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, restructuring costs, adjustment to 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:

|                                      | 2019<br>£'000 | 2018<br>£'000 |
|--------------------------------------|---------------|---------------|
| <b>Underlying EBITDA</b>             | <b>10,795</b> | 9,771         |
| Acquisition fees                     | (495)         | (229)         |
| Restructuring costs                  | (105)         | —             |
| Openreach compensation credit        | —             | 755           |
| Share option charges                 | (68)          | (40)          |
| Adjustment to deferred consideration | (586)         | (28)          |
| Depreciation                         | (633)         | (418)         |
| Amortisation                         | (4,568)       | (3,730)       |
| Interest                             | (1,902)       | (1,561)       |
| <b>Profit before tax</b>             | <b>2,438</b>  | 4,520         |

In accordance with the requirements of IFRS 3 the adjustment to deferred consideration payable in respect of acquisitions has been recognised in the statement of comprehensive income. This value does not form part of the trading results of the Group and has therefore been added back for the purpose of demonstrating the underlying trading profitability of the Group.

During the prior 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.

### Finance costs

Total interest costs have increased to £1.90m (2018: £1.56m), arising largely from the increase in the average level of net borrowings, which was used to fund the acquisitions of Shift F7 and ETS, combined with the deferred consideration payable in respect of the Our IT Department

and Atomwide acquisitions. Included within interest costs is a £0.08m charge, which is non-cash, in relation to the discounted cash flow impact of the contingent deferred consideration payable in relation to the Atomwide, Shift F7 and ETS acquisitions. A further £0.15m of non-cash interest from the application of IAS 32 and IFRS 9 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 reported profit before tax was £2.44m (2018: £4.52m). The decrease to profit before tax arises from the prior year, including £0.76m of one-off compensation credits received from Openreach, the £0.34m increase in finance costs, the acquisition and restructuring costs of £0.60m, the adjustment to deferred consideration under IFRS 3 of £0.59m and the associated £0.84m increase in amortisation arising from the acquisitions undertaken during the current and prior year.

### Profit after tax and earnings per share

Profit after tax for the year amounted to £1.87m (2018: £3.94m). Basic earnings per share was 7.88p (2018: 16.61p). Adjusted fully diluted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation, share option charges, adjustment to deferred consideration, restructuring and acquisition costs, increased by 6.0% to 29.61p per share (2018: 27.97p).

### Dividends and dividend per share

On the back of strong cash flow generation ADEPT announced an interim dividend of 4.90p per share, which was paid to shareholders on 8 April 2019. The Company announced in the pre-trading update on 3 April 2019 that, subject to shareholder approval at the annual general meeting later in the year, it is proposing a final dividend of 4.90p per ordinary share (2018: 4.50p). This dividend is expected to be paid on or around 9 October 2019.

Total dividends approved and proposed during the year ended 31 March 2019 of 9.80p per ordinary share represent a 12% increase year on year (2018: 8.75p). 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 70.5% (2018: 80.5%). The prior year includes £0.76m of cash received in respect of the Openreach compensation credit, which is abnormal. Excluding the compensation cash receipt the underlying pre-tax cash conversion for the prior year was 73.1%. On a before income tax basis, the proportion of reported EBITDA turned into net cash from operating activities was 79.0% (2018: 93.0%), with the prior year comparative being 85.6% excluding the Openreach compensation payment.

## Business review continued

### Cash flow continued

Working capital was extended at year end with a £2.49m net cash flow impact in payables and receivables, although the majority of this is driven by timing rather than underlying extension of the working capital requirement for the Group. The collection of trade receivables was extended at year end beyond its usual position from the timing of invoicing in relation to several significant projects, most significantly the initial invoicing of Kent NHS in relation to the installation and rentals for the wide area network connecting more than 400 hospitals and GP surgeries across Kent which have been paid post year end, plus the Second Home IT infrastructure project, both of which have not been recognised in revenue or profitability in the current period as the projects had not yet been fully completed pre-year end. In addition, following the successful contract award of the Citrix worldwide maintenance contract to AdEPT Fleet, the annual invoicing was undertaken pre-year end, but the application of standard credit terms resulted in post-year-end payment. The invoicing timing of these three projects and the AdEPT Nebula capital expenditure has impacted the movement on trade receivables and payables by £2.11m at year end. Reported year-end trade receivables were 42 days at year end, with the underlying trade receivables being 35 days.

Additionally, the continued transition of the Group towards an increasing proportion of data connectivity services has increased the level of working capital, with £0.28m absorbed by the advanced charging structure of wholesale data connectivity rentals, which are typically quarterly in advance. This is an ongoing increase to the working capital requirement of the Group. £0.25m of capital expenditure incurred on the AdEPT Nebula project in March 2018 was not physically paid in cash until April 2018 and is therefore included in the net movement in trade payables in the current period.

March 2019 inventory value was increased by £0.17m due to firewall equipment purchased to fulfil the security and resilience solution incorporated into the Kent NHS wide area network project. The firewall installation has taken place post year end and therefore this has temporarily absorbed working capital at year end.

Income taxes paid during the year have reduced to £0.81m (2018: £1.50m); this decrease is not a reflection of reduction in the effective tax rate but arises from the receipt of £0.51m of cash in respect of research and development tax claims for the software and app development work and the capital and operational costs for the development of AdEPT Nebula combined with a tax refund in respect of the tax deduction for share options exercised in Atomwide on acquisition. This cash receipt includes amounts which relate to prior periods and is not all arising from capital and operational expenditure on research and development in the year ended 31 March 2019.

Cash interest paid has increased during the year to £1.41m (2018: £0.91m), which arises from the increase in net borrowings to fund the acquisitions of Shift F7 and ETS and the deferred consideration paid in respect of the Our IT Department and Atomwide acquisitions.

Cash outflows in the year ended 31 March 2019 in relation to acquisitions amounted to £11.03m (net of cash acquired). The contingent consideration in respect of the acquisition of Our IT of £3.65m was paid in April 2018 and in respect of the acquisition of Atomwide £1.51m was paid in October 2018 with no further amounts due in relation to these acquisitions. The initial cash consideration for the acquisition of Shift F7 of £4.35m was paid in August 2018 and £1.74m for the acquisition of ETS in November 2018.

Dividends paid during the year ended 31 March 2018 absorbed £2.07m of cash (2018: £1.84m). This increase over the prior period arises from the continued application of the progressive dividend policy.

There was an increase to cash and cash equivalents during the year of £0.52m to year-end cash of £7.65m. This arises from a net increase in the drawn element of the revolving credit facility at March 2019 which was used to fund the acquisition of Advanced Computer Systems Limited in April 2019. 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 1.1% of revenue (2018: 0.9%). The capital expenditure in the current year arises partly from the refurbishment of the Our IT Department premises in Chingford completed in April 2018 but mainly from AdEPT investing a relatively small amount of capital in the development of a network connecting three data centres (which, combined with other capabilities and services, is known as 'AdEPT Nebula'). AdEPT Nebula is built around the core data centre in Orpington, which is owned by AdEPT. The network allows AdEPT to provide its own cloud hosting capability.

AdEPT Nebula is live and already delivering benefits to customers by providing Avaya IP cloud telephony services, hosted IT services and a range of data connectivity services. The network underpinning AdEPT Nebula has been developed using the in-house skills and capabilities of the AdEPT technical team. The Company will continue to review development opportunities for the addition of new products and services to AdEPT Nebula as customer demand dictates.

### Business combinations

On 17 August 2018 the Company acquired the entire issued share capital of Shift F7. Shift F7, founded in 1995, is a highly accredited IT services provider with over 20 years' experience, offering highly specialised IT support services and technology solutions to more than 200 commercial mid-market customers. Shift F7 has security accredited dedicated hosted platform environments in London Docklands and Heathrow. Key suppliers include Citrix, Microsoft, HP, Cisco, Ericsson-LG and VMware. Initial consideration of £4.35m was paid in cash. Further contingent deferred consideration of between £Nil and £2.90m may be payable, also in cash, dependent upon the performance of Shift F7 post-acquisition. Total consideration is anticipated to be £4.35m (including acquired debts and tax liabilities).

A fair value of £5.16m in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the year ended 31 March 2019.

On 17 November 2018 the Company acquired the entire issued share capital of ETS. ETS, based in Wakefield, specialises in Avaya IP Office and Ericsson-LG and supplies hosted voice in over 200 GP surgeries. One of the three vendors, which responsible for the strategic direction and day-to-day operations of ETS, has been retained within the business post-acquisition. Initial consideration of £1.74m was paid in cash. Further contingent consideration of between £Nil and £1.75m may be payable, also in cash, dependent upon the performance of ETS post-acquisition. Total consideration is expected to be £3.69m (including acquired debts and tax liabilities).

A fair value of £3.63m in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the year ended 31 March 2019.

Further details on the acquisition during the year are described in Note 30 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 £6.72m was generated during the year ended 31 March 2019 (2018: £8.24m). The current period includes £0.59m of costs in relation to acquisition fees and restructuring costs; the prior year comparative includes £0.76m of cash received from the Openreach compensation payment.

Opening cash plus the free cash flow generated in the year and borrowing drawdowns from the senior debt facility have been used to fund £11.03m acquisition consideration, £2.07m dividends paid and £0.63m of capital expenditure on tangible and intangible assets. Net senior debt, which comprises cash balances and bank borrowings, has increased to £27.11m at the year end (2018: £17.62m) as a result of the acquisition consideration outflows.

On 7 November 2018 the Company signed a £5m extension to its existing £30m five year revolving credit facility agreement, enlarging the total debt facility to £35m. Post year end, in April 2019, the Company signed a further extension of its existing bank facility to £40m. The enlarged facility is provided by Barclays Bank plc and The Royal Bank of Scotland plc on an equal basis. The facility has been provided to AdEPT to fund acquisition of businesses that extend the AdEPT product set and, by being part of the AdEPT Group, will benefit from economies of scale. The commercial terms of the enlarged facility remain the same as the existing facility and 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<br>services<br>£'000 | Managed<br>services<br>£'000 | Total<br>£'000 |
|---------------------------------|---------------------------------|------------------------------|----------------|
| <b>Year ended 31 March 2019</b> |                                 |                              |                |
| <b>Revenue</b>                  | <b>12,814</b>                   | <b>38,494</b>                | <b>51,308</b>  |
| <b>Gross profit</b>             | <b>4,904</b>                    | <b>20,438</b>                | <b>25,342</b>  |
| <b>Gross margin %</b>           | <b>38.3%</b>                    | <b>53.1%</b>                 | <b>49.4%</b>   |
| <b>Underlying EBITDA</b>        | <b>2,784</b>                    | <b>8,011</b>                 | <b>10,795</b>  |
| <b>Underlying EBITDA%</b>       | <b>21.7%</b>                    | <b>20.8%</b>                 | <b>21.0%</b>   |
| <b>Year ended 31 March 2018</b> |                                 |                              |                |
| Revenue                         | 14,001                          | 32,433                       | 46,434         |
| Gross profit                    | 5,439                           | 17,480                       | 22,919         |
| Gross margin %                  | 38.8%                           | 53.9%                        | 49.4%          |
| Underlying EBITDA               | 2,877                           | 6,894                        | 9,771          |
| Underlying EBITDA%              | 20.5%                           | 21.3%                        | 21.0%          |

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 credit worthiness 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 24.6% 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.



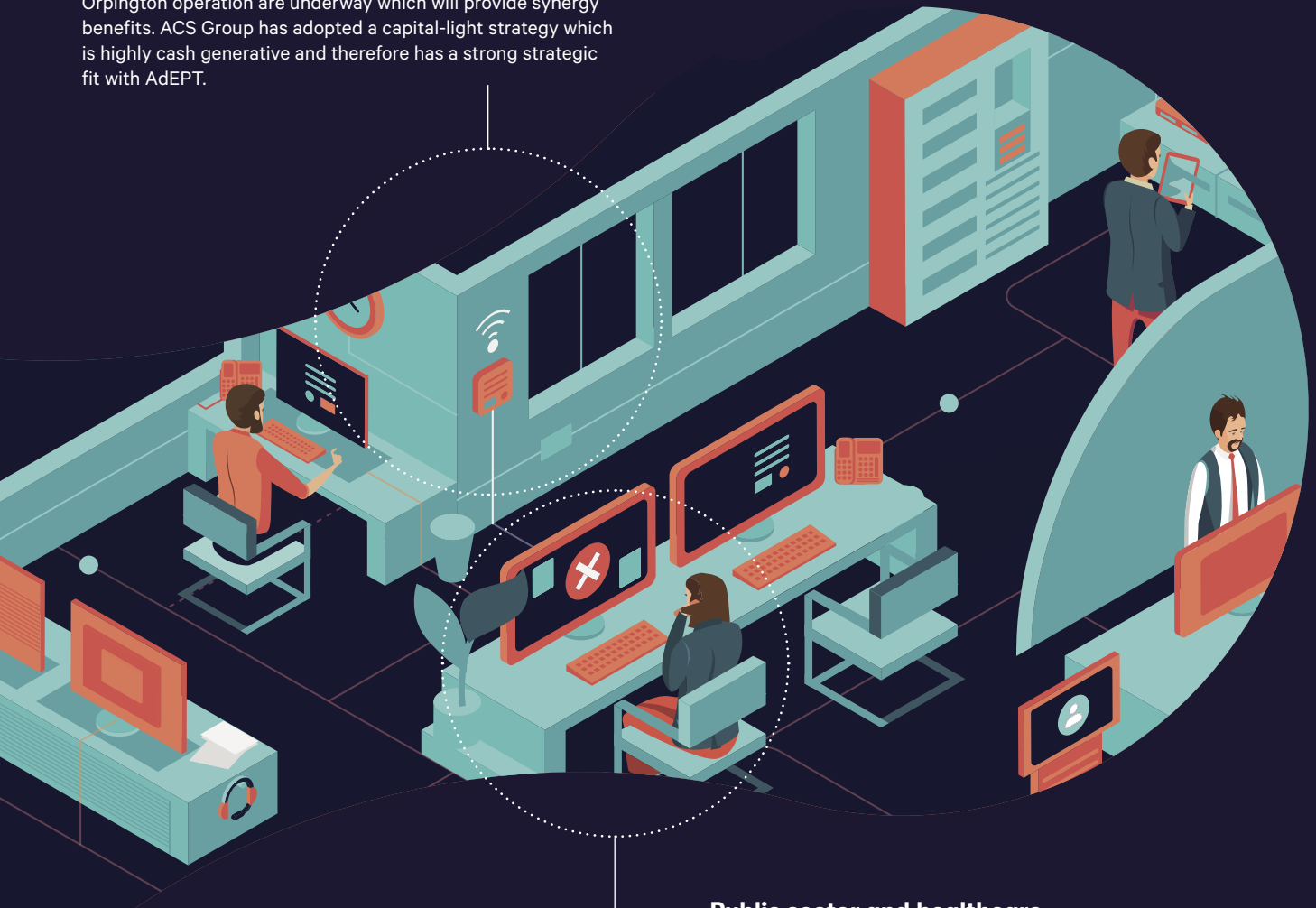
**John Swaite**  
Finance director  
July 2019

## Case study

# Strategic acquisitions to extend our reach

### ACS Group

The ACS Group acquisition in April 2019 has further enhanced AdEPT's education strategy with more than 200 schools and academy trust customers and the complementary software support expertise in SAGE and SIMS. Acquiring the ACS Group strengthens our capability in the education sector and extends the geographical reach of our IT services into Yorkshire. The consolidation of supply agreements and the integration of ACS Group with AdEPT's Orpington operation are underway which will provide synergy benefits. ACS Group has adopted a capital-light strategy which is highly cash generative and therefore has a strong strategic fit with AdEPT.



### Public sector and healthcare

The acquisition of ETS Communications in November 2018 has added over 200 GP surgeries into the AdEPT customer base. ETS offers its clients the delivery of a full suite of unified communications solutions, with particular expertise in the Avaya product set. ETS has a well-developed customer base with long-term relationships, which will build upon AdEPT's existing public sector and healthcare presence. The consolidation of the supply agreement and the integration of ETS with AdEPT's Northampton operation has been completed, which has provided synergy benefits. ETS has adopted a capital-light strategy which is highly cash generative and therefore has a strong strategic fit with AdEPT.





# Providing resilient, unified communications solutions for hospitals and the healthcare sector

During the year AdEPT won the contract to design and roll out a super-fast network infrastructure across all departments of Kent NHS, which includes more than 400 sites across Kent including hospitals, hospices and GP surgeries. This highly complex project includes a variety of connectivity and IT services under a wide area network solution, including managed firewalls, to provide a fully secure and resilient solution for Kent NHS – this solution has improved the speed of service whilst at the same time achieving a more economic price point. The roll-out of services going live commenced towards the end of the year, but the AdEPT project delivery team are now working towards completion of the project.

**70%**  
Of private hospitals in London use our services

**c.20**  
NHS trusts work with AdEPT

**+400**  
Sites across London and Kent

## Key performance indicators

### Revenue (2018: £46.4m)

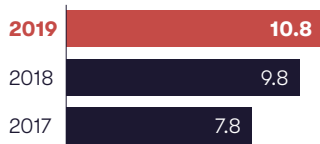
**£51.3m**  
**+11%**



Revenue from sales made to all customers (excluding intra-group sales which are eliminated on consolidation).

### Underlying EBITDA (2018: £9.8m)

**£10.8m**  
**+11%**



Earnings before interest, taxation, depreciation, amortisation, gains and losses on revaluation, acquisition fees and restructuring costs.

### Adjusted earnings per share (2018: 28.0p)

**29.6p**  
**+6%**



Adjusted earnings after tax divided by the fully diluted number of shares.

### Gross profit margin (2018: 47.7%)

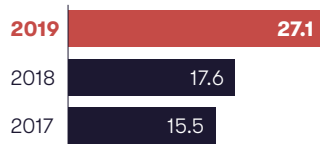
**49.4%**  
**+1.7%**



Gross profit (being revenue less all direct third-party cost of sales) as a percentage of revenue.

### Net senior debt (2018: £17.6m)

**£27.1m**



Cash and cash equivalents less short-term and long-term borrowings and prepaid bank fees.

### Dividend per share (2018: 8.75p)

**9.8p**  
**+12%**



The total dividends declared and proposed per ordinary share during the year.

### Underlying EBITDA margin (2018: 21.0%)

**21.0%**











Underlying EBITDA as a percentage of revenue.



Read more about our Corporate governance on pages 24 to 28

## 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   | Link to strategy  |
|---|---|--|---|
| <b>Liquidity risk</b>   |   |  |   |
| 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.   | <br><b>No change</b>      |    |
| <b>Credit risk</b>  |   |  |   |
| 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.  | <br><b>Risk decreased</b> |    |
| <b>Competitor risk</b>  |   |  |   |
| 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.<br><br>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. | <br><b>No change</b>    |  |
| <b>Acquisition integration</b>  |   |  |   |
| 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.   | <br><b>No change</b>    |  |

The business review set out on pages 10 to 13 has been approved by the Board on 31 July 2019 and signed on its behalf by:



**John Swaite**  
Finance director

## Board of directors



**Ian Fishwick**  
**Non-executive Chairman**  
(MBA, ACMA)

**Skills and experience**

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. Ian moved to Chairman of AdePT in January 2019.



**Phil Race**  
**Chief executive officer**  
(MBA, BEng)

**Skills and experience**

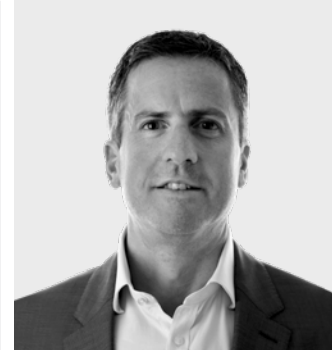
Over a 20 year career Phil has headed businesses within Xchanging, SSP, Sirius and Logica (formerly CMG). He has extensive and highly relevant experience of IT outsourcing and enterprise software, having led companies that deployed global, complex, mission critical solutions. Born in Cambridge and an Electronic Engineering graduate of Nottingham University, in 2000 Phil was awarded an MBA from Henley Management College. Phil was appointed to the Board as chief executive on 1 January 2019.



**John Swaite**  
**Finance director**  
(BA Hons, FCA)

**Skills and experience**

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.



**Richard Burbage**  
**Unified communications director**

**Skills and experience**

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.



**Richard Bligh**  
**Non-executive director**

**Skills and experience**

Richard joined AdEPT in June 2019; prior to this he held the position of director of business development at Gamma Communications plc, where he was instrumental in building that company to a market value of over £1 billion. Richard has more than 20 years' telecoms sector experience in a variety of marketing and business development vice president roles. These include UK and international experience in ECI Conferencing, Intertek plc, Global Crossing and Racal Telecom. Richard has extensive experience of business markets from serving multi-national corporates to selling via the channel. Richard is a graduate of Cardiff University.



**Dusko Lukic** ● ●  
**Non-executive director**

**Skills and experience**

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.



**Roger Wilson** ● ●  
**Non-executive director**  
 (BA Hons, DMS)

**Skills and experience**

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.

- Committee Chairman
- Audit committee member
- Remuneration committee member

## Directors' report

For the year ended 31 March 2019

# The directors present their report and the financial statements for the year ended 31 March 2019

### 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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 have considered a number of factors in determining whether the going concern basis remains appropriate.

The Group doesn't have high customer concentration or sector exposure and the majority of the revenue stream is generated from recurring products and services, which combined provide good revenue and profitability visibility for the foreseeable future. The Group has adequate funding facilities available to it for the period until February 2022, the details of which are included in Notes 20 and 28 of these financial statements. Credit risk is being managed by a high proportion of customers paying via direct debit, paying deposits or paying in advance of receiving service.

The directors have reviewed the detailed financial forecast of the Group and the underlying assumptions in light of the current trading performance, which demonstrate positive operating cash flow, an improving financial position and adequate headroom in respect of the banking covenants. Based upon this, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements are therefore prepared on the going concern basis.

### 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 (2018: £5,600).

### 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

On 25 April 2019 the Company signed a £5m extension to its existing £35m five year revolving credit facility agreement, enlarging the total debt facility to £40m. The incremental £5m tranche of the revolving credit facility is available in the period through to 30 June 2020. The remaining £35m of the revolving credit facility remains available for the five year term to 31 January 2022. The commercial terms of the enlarged facility remain the same as the existing facility, the details of which are included in Notes 21 and 29.

### Acquisition of Advanced Computer Systems Group Limited

On 26 April 2019 the Company acquired the entire issued share capital of Advanced Computers Systems Group Limited and its trading subsidiary Advanced Computer Systems Limited ('ACS'), together referred to as 'ACS Group', a well-established UK-based specialist 'provider of IT services focused on the education sector.

ACS Group, founded in 1999, is an independent IT service provider based in Doncaster with 20 years' experience. ACS Group is focused on providing IT services and has a strong public sector presence, including managing and supporting the IT function of approximately 200 schools and academy trusts.

Further details are included in Note 32.

### 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 and a technical team which is responsible for the enhancement and development of the AdEPT Nebula network. The costs incurred during the year in relation to these activities was £719,878; these costs are expensed as incurred and are included within administrative expenses in the statement of comprehensive income. In addition the Group incurred capital costs of £318,305 in relation to the development of the AdEPT Nebula network; these costs have been capitalised and are included within tangible assets. The rest of the Group does not undertake significant levels of investment in research and development; instead it works with strategic network and supply partners to develop the product portfolio.

### Dividends

Details of the dividends paid during the year are included in the strategic report.

### 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, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

On behalf of the Board



### Phil Race

Director

July 2019

## Report of the remuneration committee

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



**Dusko Lukic**  
Chairman of the remuneration committee

### Scope of the report

The remuneration report summarises the remuneration committee's activities during the year, the outcomes for directors' remuneration and the Group's remuneration policy. The report also describes how the Group applies the principles of good corporate governance in relation to directors' remuneration. The remuneration committee 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), Christopher Kingsman, Ian Fishwick 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, Richard Burbage and Phil Race 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   | Total 2019<br>£ | Total 2018<br>£ |
|--------------|---|--|---------------------|----------------------------|-----------------|-----------------|
|              | Salary and fees paid or receivable<br>£ | Bonus and commission paid or receivable<br>£ | Other benefits<br>£ | Pension contributions<br>£ |                 |                 |
| R Wilson     | 57,432                                  | —  | 12,109              | 721                        | 70,262          | 72,668          |
| D Lukic      | 41,464                                  | —  | 10,835              | 650                        | 52,949          | 48,386          |
| C Kingsman   | 27,821                                  | —  | —                   | 252                        | 28,073          | 12,776          |
| I Fishwick   | 226,000                                 | 30,000                                       | 44,895              | 18,296                     | 319,191         | 363,270         |
| P Race       | 110,231                                 | 5,000  | —                   | 6,700                      | 121,931         | —               |
| R Burbage    | 120,000                                 | 53,723                                       | 10,896              | 806                        | 185,425         | 199,620         |
| J Swaite     | 175,000                                 | 25,988                                       | 11,044              | 806                        | 212,838         | 208,720         |
| <b>Total</b> | <b>757,948</b>                          | <b>114,711</b>                               | <b>89,779</b>       | <b>28,231</b>              | <b>990,669</b>  | <b>905,440</b>  |

During the year retirement benefits were accruing to seven directors (2018: six) 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 £18,296 (2018: £13,306).

The share option debit recognised during the year in respect of the directors was £67,487 (2018: £40,254). The aggregate amount of gains made by directors on the exercise of share options was £Nil (2018: £Nil). There were no directors (2018: 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 2018 | Awarded in year | Options exercised | Options lapsed | Options at 31 March 2019 | 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   |
| Employees  | Unapproved    | —                       | 200,000         | —                 | —              | 200,000                  | 353p         | 21 August 2018  |
| P Race     | Unapproved    | —                       | 237,018         | —                 | —              | 237,018                  | 368p         | 1 January 2019  |

All options were issued at market value and have a three year vesting period. 240,000 of the outstanding options have vested and they are not subject to any performance conditions. 352,500 of the outstanding options are subject to performance conditions and have not yet vested. The remaining options are not subject to any performance conditions and have not yet vested.



**Dusko Lukic**  
Chairman of the remuneration committee  
July 2019

## 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 following is a list of the ten core principles of the QCA Corporate Governance Code and the application by the Company in support of the Group's medium to long-term success

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

AdEPT was originally established as a fixed line telecoms provider but is diversifying its product range to become one of the UK's leading independent unified communications and IT service providers. This transition has been largely through development of the organic sales focus combined with strategic acquisition of earnings-enhancing business.

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.

The Company is focused on maintaining a high proportion of recurring revenue and margin, and a low operating cost base with a high proportion of EBITDA converting to operating free cash flow. This high free cash flow is to be reinvested into the Company via strategic earnings-enhancing acquisitions combined with returns to shareholders via dividends.

Key challenges in the execution of the strategy of the Group are the following risk factors:

- > credit risk;
- > competitor risk;
- > acquisition integration;
- > capital risk management;
- > liquidity risk; and
- > retention of the Board and senior management.

All of these are covered in greater detail later in this statement.

#### 2. Understanding and meeting shareholders needs and expectations

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and, in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences and our regular reporting.

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The Chairs of the Board and all committees, together with all other directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is

announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

The executive directors have regular dialogue with all major shareholders of the Company and prospective new shareholders through investor meetings and webinars. The chief executive officer and finance director make presentations to institutional and private shareholders and analysts each year immediately following the release of the full year and half year results. In addition, the executive directors attend investor shows and produce audio and video updates on a regular basis, copies of which can be found on the investor relations pages of the Company website.

The feedback received by the Board from shareholders is that these audio and video updates provide a time and cost effective method of getting updates on the strategy and financial performance of the Company.

The Board regularly undertakes reviews with major shareholders to understand the drivers behind their investment decisions. The aim is to try and communicate the strategy of the Company to those shareholders and demonstrate how it expects to deliver long-term value.

The Company has a shareholder benefit scheme for any shareholders with 250 or more shares. The details of the scheme are included on the Company website and provides an open path of communication with shareholders.

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

The Company leverages the expertise of its own workforce but also that of third-party suppliers/partners and therefore recognises that maintaining good relationships with those stakeholders is vital for the long-term success of the Company.

The Board has identified the range of stakeholders on which the success of the Company is dependent. The executive Board is involved in all discussions with key stakeholders to ensure that their needs, interest and expectations are both understood and aligned with those of the Company.

There is a continuous feedback loop in relation to all processes within the Company to ensure that the senior management team and Board are able to act on any feedback from stakeholders. Once a week, the executive director team has a meeting with the senior management at each site within the Group to understand any issues arising so that they can be dealt with in a timely manner.

#### Employee involvement

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

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

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

### Environmental commitment

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

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

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

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

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

The Company has established a framework of internal financial controls, the effectiveness of which is reviewed by the executive management, the audit committee and the Board in light of ongoing assessment of significant risks facing the Company.

#### 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 Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and determining the financial structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board. 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. Reforecasts are prepared on a regular basis during the year, for example reflecting an additional acquisition. The actual results are compared to the budget and/or reforecasts 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.

In addition to its other roles and responsibilities the audit committee is responsible to the Board for ensuring that procedures are in place, and are being effectively implemented to identify, evaluate and manage the significant risks faced by the Group. The audit committee reviews the risks and controls on a regular basis.

The following principal risks, and controls to mitigate them, have been identified:

#### 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.

#### Currency risk

The Group's operations are handled almost 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.

## Corporate governance statement continued

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

#### 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 risk

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.

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

#### The Board

##### Executive directors

Phil Race  
John Swaite  
Richard Burbage

##### Non-executive directors

Ian Fishwick  
Roger Wilson  
Dusko Lukic  
Richard Bligh

#### The Board

The Board comprises three executive directors and three non-executive directors. During the year ended 31 March 2019 Phil Race was appointed to the Board to replace Ian Fishwick as chief executive officer, with

#### Meeting attendance

Bi-monthly Board meetings were held throughout the year ended 31 March 2019. Directors are provided with comprehensive background information on the strategy, sales and financial performance in advance of each meeting, and all directors are able to participate fully and on an informed basis in all Board decisions. Any specific actions arising during meetings agreed by the Board are minuted, followed up and reviewed at subsequent meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Details of the attendance of individual members at meetings during the year are shown in the table below:

|            | Management Board meetings | Board meetings | Audit committee | Remuneration committee | Other meetings | Total attendance |
|------------|---------------------------|----------------|-----------------|------------------------|----------------|------------------|
| R Wilson   | 1                         | 6              | 1               | 4                      | 2              | 14               |
| D Lukic    | 1                         | 6              | 1               | 4                      | 2              | 14               |
| I Fishwick | 46                        | 6              | —               | —                      | —              | 52               |
| P Race     | 24                        | 4              | —               | —                      | —              | 28               |
| J Swaite   | 46                        | 6              | 1*              | —                      | —              | 53               |
| R Burbage  | 46                        | 6              | —               | —                      | —              | 52               |

\* By invitation.

Ian moving to Chairman and Christopher Kingsman, non-executive director, resigning. It is recognised that Roger Wilson and Ian Fishwick are not considered independent due to their shareholding in the Company.

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.co.uk](http://www.adept.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.

The Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies recommend that an AIM company should have at least two independent non-executive directors. The Board considers that two of the existing non-executive directors, Roger Wilson and Ian Fishwick, are not independent for the purposes of these guidelines due to their level of shareholdings in the Company and, therefore, that Dusko Lukic is the only independent non-executive director, which is not in compliance with the QCA Guidelines. The Board believes that the non-executive directors are an effective team with a blend of skillsets which meet the needs of the Company and which are fully committed to working for the benefit of all shareholders and stakeholders. The composition of the Board is regularly reviewed with regard to the ongoing requirements of the Company in the medium to long term.

#### Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

#### Board appointments

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

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

The Board considers that the Company benefits from a range of highly experienced individuals, with sector specialist skills and personal qualities and capabilities that can deliver the strategy of the Company for the long-term benefit of shareholders. Details of the Board and their experience are included on pages 18 and 19. The Board is satisfied that, between the directors, it has an effective and appropriate balance of skills and experience, including in the areas of IT, communications, finance, innovation, commerce, sales and marketing.

### Independent advice

There are no external advisers to the Board or any of its committees, other than that auditor (Crowe U.K. LLP). All directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the directors have direct access to the advice and services of the company secretary and finance director. The company secretary, Dentons LLP, provides the Board with professional expertise in relation to all company secretarial and associated issues. The company secretary is independent of the Company.

It has not been deemed necessary to formalise a training and development programme for each director.

### Appointment, removal and re-election of directors

The Board makes decisions regarding the appointment and removal of directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that all directors must stand for re-election at least once every three years; and that any new directors appointed during the year must stand for election at the AGM immediately following their appointment.

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

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. The performance of the executive directors is measured against the internal budget for revenue, EBITDA and cash/net debt, with a performance related bonus for exceeding the internal budget targets.

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 the performance factors into account, it then makes recommendations to the Board.

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.

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. This is maintained through the use of bonus and share option schemes, as follows:

### 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 cash/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.

Currently the non-executive directors do not formally get appraised and they do not formally appraise the Chairman's performance. However, the performance evaluation of the committees on which the non-executive directors sit is deemed appropriate for the evaluation of their performance.

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

The Board recognises that some groups experience unfair discrimination in society, and AdePT is committed to challenging unfair discrimination in all forms, ensuring that a sound corporate culture which is based on ethical values of equality is at the heart of everything we do. We value diversity and believe that this brings fresh ideas and perceptions.

The equal opportunity policy of AdePT sets out the Company's position on equal opportunity in all aspects of employment and helps us to meet our statutory Equality Duty under the Equality Act 2010. The Act sets us an 'Equality Duty' to have due regard to the need to:

- > eliminate unlawful discrimination, harassment and victimisation;
- > advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- > foster good relations between people who share a protected characteristic and people who do not share it.

The policy has been developed to maintain the following policy objectives:

- > to provide a safe and welcoming environment, in which individuals are valued, included and respected;
- > to eliminate unfair discrimination;
- > to advance equality of opportunity; and
- > to foster good relations between different groups of people.

## Corporate governance statement continued

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

The application of the policy is the responsibility of all directors, employees, contract and partners working on behalf of AdePT. The policy is made available to all staff via the local network and has been advised to partner organisations.

AdePT will not discriminate on the basis of sex, race, marital status, disability, age, part-time or fixed-term contract status, sexual orientation or religion in the allocation of duties between employees employed at any level with comparable job descriptions.

Our employment application form will be as simple and straight forward as possible and we will not ask for unnecessary information. Interview questions will be related to the requirements of the job and we will not seek irrelevant qualifications. Applicants will be short listed/selected solely on the basis of capability.

Monitoring of our equality and diversity policy is carried out by the senior management team on an annual basis.

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

#### Remuneration committee

The remuneration committee is responsible for the policy for the remuneration of the executive directors, company secretary and operating board.

#### Members

Dusko Lukic (Chairman)  
Ian Fishwick  
Roger Wilson

#### Audit committee

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

#### Members

Dusko Lukic (Chairman)  
Roger Wilson

The 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.

#### Nomination committee

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.

#### Executive Team

The Executive Team consists of Phil Race, John Swaite and Richard Burbage with input from the divisional directors and their teams. They are responsible for the formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The chief executive officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters and the effectiveness of these controls are regularly reported to the Board.

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

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 21 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.co.uk](http://www.adept.co.uk), which includes an investor relations section which contains all the required information under AIM Rule 26.

The Company produces an annual report with the final financial results for each financial year, which is available on the Company website. The annual report also contains the strategic report, report of the remuneration committee and corporate governance statement.

The website of the Company also contains copies of every news announcement which has been released by the Regulatory News Service on the AdePT pages of the London Stock Exchange website.

The executive directors have regular dialogue with major shareholders of the Company and prospective new shareholders through investor meetings and webinars. In addition, the executive directors attend investor shows and produce audio and video updates on a regular basis, copies of which can be found on the investor relations pages of the Company website.

The Board has an open dialogue with all employees of the Group through monthly communication of all key events and activities which have happened around the Group, including new starters, customer contract wins and financial results which have been released. In addition, regular Group-wide events are held at which employees are informed about new products and services and they have the opportunity to network with their fellow employees.

The Group recognises that maintaining strong relationships with key suppliers is vital and therefore members of the senior management team are constantly liaising with suppliers in relation to new opportunities and development of existing products and services.

The Company completes regular employee surveys to maintain an open dialogue with employees and has introduced new processes to collate employee feedback and use this to improve training and service.

# Financial statements

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## Independent auditor's report

To the shareholders of AdEPT Technology Group plc

### Opinion

We have audited the financial statements of Adept Technology Group plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2019 which comprise:

- > the Group statement of comprehensive income for the year ended 31 March 2019
- > the Group and parent company statements of financial position as at 31 March 2019
- > 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 2019 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 (2018: £400,000), based on a percentage of underlying EBITDA. The materiality set represents 4% 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 (2018: £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 involved 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 UK LLP and no component auditors were used.

#### 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.



## Overview of our audit approach *continued*

### Key Audit Matters *continued*

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  |
|--|--|
| <p><b>The recognition of intangible assets on acquisition</b></p> <p>The company made two significant acquisitions in the year and there is therefore considered to be a risk that management has incorrectly identified the intangible assets purchased or had incorrectly valued those assets.</p>   | <p>Management provided an initial valuation of intangibles recognised upon acquisition. These were valued based upon discounted future cashflows.</p> <p>The valuations require significant estimates by management including the revenues and margins generated on those revenues included in the calculations, the discount rate used and the period over which these cashflows are assessed. Changes in these assumptions can materially impact on the estimated value of the intangible asset recognised.</p> <p>We challenged management on the assumptions used in the model to ensure that the assumptions had been made on a reasonable basis and were supportable by available evidence.</p> <p>In challenging these assumptions were considered the following:</p> <ul style="list-style-type: none"> <li>&gt; Whether the revenues and margins appeared reasonable based on the past performance of the company</li> <li>&gt; Whether the assumptions used to calculate the discount rate were reasonable and supportable</li> <li>&gt; Whether the period used to assess the cashflows was reasonable based upon our knowledge of the acquired businesses and that of past acquisitions and similar businesses.</li> </ul> |
| <p><b>Deferred consideration on acquisitions</b></p> <p>Deferred consideration is based upon post acquisition performance. The calculations require management to both look at performance to date and estimate future performance.</p>  | <p>There was deferred consideration outstanding at the year end relating to the two acquisitions made during the year.</p> <p>As deferred considered is contingent on post-acquisition performance (some of which is forecast data at the year-end) there is a degree of estimation uncertainty on the final amounts payable at the year end.</p> <p>We therefore audited management's estimates and challenged the inputs into the model provided. In doing so we:</p> <ul style="list-style-type: none"> <li>&gt; Ensured that management had updated their estimates of deferred consideration from the point of acquisition to the latest available estimates</li> <li>&gt; Ensured that, where estimates of future cashflows were used, that these were reasonable, based upon past performance and reasonable expectations about the future</li> <li>&gt; That the calculation of the estimated deferred consideration agreed to the Share Purchase Agreement.</li> </ul>  |
| <p><b>Intangible assets and goodwill from previous acquisitions</b></p> <p>The value of these is significant and assessing the value and amortisation rates used to amortise the intangible assets is complex and involves a degree of subjectivity. Although any impairment would not impact on EBITDA impairment charges would impact upon distributable reserves which is important for the payment of dividends.</p> | <p>Management conduct an annual impairment review of intangible assets not subject to amortisation and goodwill. Impairment reviews on other intangible assets are conducted when there is evidence of impairment.</p> <p>The impairment calculations are based upon discounted cashflows. The significant inputs into the model include the cashflows in the current period, the churn rate (used to assess future cashflows), and the discount rate applied.</p> <p>We audited the model provided by management and challenged them on the assumptions used. Our procedures included:</p> <ul style="list-style-type: none"> <li>&gt; Auditing the cashflows used to ensure that only those cashflows relevant to the intangible assets acquired had been included</li> <li>&gt; Ensuring that the period over which to assess the cashflows remained reasonable</li> <li>&gt; Ensuring that churn rates had been correctly calculated and future churn rates applied were reasonable in light of our knowledge of the business</li> <li>&gt; Whether the assumptions used to calculate the discount rate were reasonable and supportable</li> <li>&gt; Sensitising managements key assumptions</li> </ul>                           |

## Independent auditor's report continued

To the shareholders of AdEPT Technology Group plc

### Overview of our audit approach continued

#### Key Audit Matters continued

##### Going concern including banking covenants

The company has significant bank financing as well as a convertible loan.

A breach could have a significant impact on the group's ability to operate as a going concern should the bank withdraw the finance.

We audited the year end covenant calculations by checking the inputs in the calculation and agreeing the basis of the calculation to the financing agreement whilst also checking the arithmetical accuracy and confirmed there were no breaches at the year end.

We also checked the forecast data to ensure that the group would continue to operate within its agreed facilities within the next 12 months.

##### 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 audited the consolidation provided to us by management. The accounting policies for subsidiaries were checked for inconsistencies.

Specifically we looked at the acquisition accounting for the two new subsidiaries in the year as well as ensuring the numbers complied with IFRS, having previously been prepared under UK GAAP.

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](http://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.

### Darren Rigden (Senior Statutory Auditor)

for and on behalf of  
Crowe U.K. LLP  
40-46 High Street  
Maidstone  
Kent  
ME14 1JH, UK  
1 August 2019

## Consolidated statement of comprehensive income

For the year ended 31 March 2019

|   | Note | 2019<br>£'000   | 2018<br>£'000    |
|---|------|-----------------|------------------|
| <b>Revenue</b>                            | 6    | <b>51,308</b>   | 46,434           |
| Cost of sales                             |      | <b>(25,966)</b> | (23,515)         |
| <b>Gross profit</b>                       |      | <b>25,342</b>   | 22,919           |
| Administrative expenses                   |      | <b>(21,002)</b> | (16,838)         |
| Operating profit                          |      | <b>4,340</b>    | 6,081            |
| <b>Total operating profit – analysed:</b> |      |                 |                  |
| Underlying EBITDA                         |      | <b>10,795</b>   | 9,771            |
| Share-based payments                      |      | <b>(68)</b>     | (40)             |
| Depreciation of tangible fixed assets     |      | <b>(633)</b>    | (418)            |
| Amortisation of intangible fixed assets   |      | <b>(4,568)</b>  | (3,730)          |
| Adjustment to deferred consideration      |      | <b>(586)</b>    | (28)             |
| Acquisition fees                          |      | <b>(495)</b>    | (229)            |
| Restructuring costs                       |      | <b>(105)</b>    | —                |
| Compensation credits                      |      | <b>—</b>        | 755              |
| Total operating profit                    |      | <b>4,340</b>    | 6,081            |
| Finance costs                             | 9    | <b>(1,902)</b>  | (1,561)          |
| <b>Profit before income tax</b>           |      | <b>2,438</b>    | 4,520            |
| Income tax expense                        | 11   | <b>(571)</b>    | (584)            |
| <b>Profit for the year</b>                |      | <b>1,867</b>    | 3,936            |
| Other comprehensive income                |      | <b>—</b>        | —                |
| <b>Total comprehensive income</b>         |      | <b>1,867</b>    | 3,936            |
|   | Note | 2019            | Restated<br>2018 |
| <b>Earnings per share</b>                 |      |                 |                  |
| Basic earnings                            | 28   | <b>7.88p</b>    | 16.61p           |
| Diluted earnings                          | 28   | <b>7.83p</b>    | 16.53p           |

All amounts relate to continuing operations. The notes on pages 41 to 69 form part of these financial statements.

# Consolidated statement of financial position

As at 31 March 2019

|  | Note | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|--|------|---------------------------|---------------------------|
| <b>Assets</b>                                |      |                           |                           |
| <b>Non-current assets</b>                    |      |                           |                           |
| Goodwill                                     | 13   | 16,024                    | 14,531                    |
| Intangible assets                            | 14   | 39,999                    | 35,666                    |
| Property, plant and equipment                | 16   | 1,472                     | 1,114                     |
| Deferred tax asset                           | 17   | 43                        | —                         |
|  |      | <b>57,538</b>             | 51,311                    |
| <b>Current assets</b>                        |      |                           |                           |
| Inventories                                  | 18   | 543                       | 266                       |
| Contract assets                              | 6    | 953                       | 423                       |
| Trade and other receivables                  | 19   | 10,349                    | 5,867                     |
| Cash and cash equivalents                    |      | 7,650                     | 7,127                     |
|  |      | <b>19,495</b>             | 13,683                    |
| <b>Total assets</b>                          |      | <b>77,033</b>             | 64,994                    |
| <b>Current liabilities</b>                   |      |                           |                           |
| Trade and other payables                     | 20   | 11,065                    | 11,832                    |
| Contract liabilities                         | 6    | 1,976                     | 568                       |
| Income tax                                   |      | 831                       | 199                       |
| Short-term borrowings                        |      | 33                        | —                         |
|  |      | <b>13,905</b>             | 12,599                    |
| <b>Non-current liabilities</b>               |      |                           |                           |
| Deferred tax                                 | 17   | 6,405                     | 5,590                     |
| Convertible loan instrument                  | 21   | 6,174                     | 6,011                     |
| Long-term borrowings                         | 21   | 34,730                    | 24,749                    |
| <b>Total liabilities</b>                     |      | <b>61,214</b>             | 48,949                    |
| <b>Net assets</b>                            |      | <b>15,819</b>             | 16,045                    |
| <b>Equity attributable to equity holders</b> |      |                           |                           |
| Share capital                                | 22   | 2,370                     | 2,370                     |
| Share premium                                |      | 479                       | 479                       |
| Share option reserve                         |      | 1,079                     | 1,012                     |
| Capital redemption reserve                   |      | 18                        | 18                        |
| Retained earnings                            |      | 11,873                    | 12,166                    |
| <b>Total equity</b>                          |      | <b>15,819</b>             | 16,045                    |

Financial statements

The financial statements were approved and authorised for issue by the Board on 31 July 2019 and signed on its behalf by:



**Phil Race**  
Director

The notes on pages 41 to 69 form part of these financial statements.

Registered number 4682431

# Company statement of financial position

As at 31 March 2019

|  | Note | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|--|------|---------------------------|---------------------------|
| <b>Assets</b>                                |      |                           |                           |
| <b>Non-current assets</b>                    |      |                           |                           |
| Intangible assets                            | 14   | 7,955                     | 9,495                     |
| Investments                                  | 15   | 50,989                    | 46,270                    |
| Property, plant and equipment                | 16   | 437                       | 95                        |
| Deferred income tax                          | 17   | —                         | —                         |
|  |      | <b>59,381</b>             | 55,860                    |
| <b>Current assets</b>                        |      |                           |                           |
| Inventories                                  | 18   | —                         | 1                         |
| Contract assets                              |      | 808                       | 284                       |
| Trade and other receivables                  | 19   | 3,321                     | 1,360                     |
| Cash and cash equivalents                    |      | 3,659                     | 4,306                     |
|  |      | <b>7,788</b>              | 5,951                     |
| <b>Total assets</b>                          |      | <b>67,169</b>             | 61,811                    |
| <b>Current liabilities</b>                   |      |                           |                           |
| Trade and other payables                     | 20   | 4,069                     | 9,705                     |
| Contract liabilities                         |      | 1,749                     | 336                       |
| Income tax                                   |      | —                         | 133                       |
| Short-term borrowings                        |      | —                         | —                         |
|  |      | <b>5,818</b>              | 10,174                    |
| <b>Non-current liabilities</b>               |      |                           |                           |
| Other provisions and liabilities             | 17   | 122                       | 140                       |
| Convertible loan instrument                  | 21   | 6,174                     | 6,011                     |
| Long-term borrowings                         | 21   | 34,730                    | 24,749                    |
| <b>Total liabilities</b>                     |      | <b>46,844</b>             | 41,074                    |
| <b>Net assets</b>                            |      | <b>20,325</b>             | 20,736                    |
| <b>Equity attributable to equity holders</b> |      |                           |                           |
| Share capital                                | 22   | 2,370                     | 2,370                     |
| Share premium                                |      | 479                       | 479                       |
| Share option reserve                         |      | 1,079                     | 1,012                     |
| Capital redemption reserve                   |      | 18                        | 18                        |
| Retained earnings                            |      | 16,379                    | 16,857                    |
| <b>Total equity</b>                          |      | <b>20,325</b>             | 20,736                    |

The profit for the financial year dealt with in the financial statements of the parent Company was £1,574,874 (2018: profit £9,326,057).

The financial statements were approved and authorised for issue by the Board on 31 July 2019 and signed on its behalf by:



**Phil Race**  
Director

The notes on pages 41 to 69 form part of these financial statements.

Registered number 4682431

# Consolidated statement of changes in equity

For the year ended 31 March 2019

|  | Attributable to equity holders |                        |                               |                                     |                            |                       |
|--|--------------------------------|------------------------|-------------------------------|-------------------------------------|----------------------------|-----------------------|
|  | Share capital<br>£'000         | Share premium<br>£'000 | Share option reserve<br>£'000 | Capital redemption reserve<br>£'000 | Retained earnings<br>£'000 | Total equity<br>£'000 |
| <b>Equity at 1 April 2017</b>                  | 2,370                          | 479                    | 34                            | 18                                  | 10,222                     | 13,123                |
| Impact of change in accounting policy          | —                              | —                      | —                             | —                                   | (174)                      | (174)                 |
| <b>Adjusted equity at 1 April 2017</b>         | 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                   |
| <b>Equity at 1 April 2018</b>                  | 2,370                          | 479                    | 1,012                         | 18                                  | 12,166                     | 16,045                |
| Impact of change in accounting policy (Note 4) | —                              | —                      | —                             | —                                   | (99)                       | (99)                  |
| <b>Adjusted equity at 1 April 2018</b>         | 2,370                          | 479                    | 1,012                         | 18                                  | 12,067                     | 15,946                |
| Profit for the year                            | —                              | —                      | —                             | —                                   | 1,867                      | 1,867                 |
| Other comprehensive income                     | —                              | —                      | —                             | —                                   | —                          | —                     |
| Total comprehensive income                     | —                              | —                      | —                             | —                                   | 1,867                      | 1,867                 |
| Deferred tax on share options                  | —                              | —                      | —                             | —                                   | 12                         | 12                    |
| Dividends                                      | —                              | —                      | —                             | —                                   | (2,073)                    | (2,073)               |
| Share-based payments                           | —                              | —                      | 67                            | —                                   | —                          | 67                    |
| <b>Equity at 31 March 2019</b>                 | <b>2,370</b>                   | <b>479</b>             | <b>1,079</b>                  | <b>18</b>                           | <b>11,873</b>              | <b>15,819</b>         |

The Group adopted IFRS 15 in the year ended 31 March 2018 and chose to apply the cumulative effect method. The Group has adopted IFRS 9 from 1 April 2018 with an opening adjustment to equity (Note 4).

The notes on pages 41 to 69 form part of these financial statements.

## Company statement of changes in equity

For the year ended 31 March 2019

|  | Attributable to equity holders |                        |                                  |   |                               |                          |
|--|--------------------------------|------------------------|----------------------------------|---|-------------------------------|--------------------------|
|  | Share capital<br>£'000         | Share premium<br>£'000 | Share option<br>reserve<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
| <b>Equity at 1 April 2017</b>                  | 2,370                          | 479                    | 34                               | 18  | 9,405                         | 12,306                   |
| Impact of change in accounting policy          | —                              | —                      | —                                | —   | (55)                          | (55)                     |
| <b>Adjusted equity at 1 April 2017</b>         | 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                      |
| <b>Equity at 1 April 2018</b>                  | 2,370                          | 479                    | 1,012                            | 18  | 16,857                        | 20,736                   |
| Impact of change in accounting policy (Note 4) | —                              | —                      | —                                | —   | 9                             | 9                        |
| <b>Adjusted equity at 1 April 2018</b>         | 2,370                          | 479                    | 1,012                            | 18  | 16,866                        | 20,745                   |
| Profit for the year                            | —                              | —                      | —                                | —   | 1,574                         | 1,574                    |
| Other comprehensive income                     | —                              | —                      | —                                | —   | —                             | —                        |
| Total comprehensive income                     | —                              | —                      | —                                | —   | 1,574                         | 1,574                    |
| Deferred tax on share options                  | —                              | —                      | —                                | —   | 12                            | 12                       |
| Dividends                                      | —                              | —                      | —                                | —   | (2,073)                       | (2,073)                  |
| Share-based payments                           | —                              | —                      | 67                               | —   | —                             | 67                       |
| <b>Equity at 31 March 2019</b>                 | <b>2,370</b>                   | <b>479</b>             | <b>1,079</b>                     | <b>18</b>                                 | <b>16,379</b>                 | <b>20,325</b>            |

The Company adopted IFRS 15 in the year ended 31 March 2018 and chose to apply the cumulative effect method. The Company has adopted IFRS 9 from 1 April 2018 with an opening adjustment to equity (Note 4).

The notes on pages 41 to 69 form part of these financial statements.



# Consolidated statement of cash flows

For the year ended 31 March 2019

|   | 2019<br>£'000   | 2018<br>£'000 |
|---|-----------------|---------------|
| <b>Cash flows from operating activities</b>                     |                 |               |
| Profit before income tax  | 2,438           | 4,520         |
| Depreciation and amortisation                                   | 5,201           | 4,148         |
| Adjustment to deferred consideration                            | 586             | —             |
| Share-based payments  | 68              | 40            |
| Net finance costs   | 1,902           | 1,561         |
| <b>Operating cash flows before movements in working capital</b> | <b>10,195</b>   | 10,269        |
| Decrease/(increase) in inventories                              | (171)           | (39)          |
| Decrease/(increase) in trade and other receivables              | (3,609)         | 479           |
| (Decrease)/increase in trade and other payables                 | 1,118           | (972)         |
| Cash generated from operations                                  | 7,533           | 9,737         |
| Income taxes paid   | (809)           | (1,501)       |
| <b>Net cash from operating activities</b>                       | <b>6,724</b>    | 8,236         |
| <b>Cash flows from investing activities</b>                     |                 |               |
| Interest paid   | (1,414)         | (907)         |
| Acquisition of subsidiaries net of cash acquired                | (11,034)        | (14,523)      |
| Purchase of intangible assets                                   | (63)            | (54)          |
| Purchase of property, plant and equipment                       | (564)           | (364)         |
| <b>Net cash used in investing activities</b>                    | <b>(13,075)</b> | (15,848)      |
| <b>Cash flows from financing activities</b>                     |                 |               |
| Dividends paid  | (2,074)         | (1,837)       |
| Increase in bank loan   | 10,000          | 11,500        |
| Repayment of borrowings   | (1,052)         | (2,750)       |
| Issue of convertible loan note                                  | —               | 7,294         |
| <b>Net cash from financing activities</b>                       | <b>6,874</b>    | 14,207        |
| <b>Net (decrease)/increase in cash and cash equivalents</b>     | <b>523</b>      | 6,595         |
| <b>Cash and cash equivalents at beginning of year</b>           | <b>7,127</b>    | 532           |
| <b>Cash and cash equivalents at end of year</b>                 | <b>7,650</b>    | 7,127         |
| <b>Cash and cash equivalents</b>                                |                 |               |
| Cash at bank and in hand  | 7,650           | 7,127         |
| Short-term borrowings   | —               | —             |
| <b>Cash and cash equivalents</b>                                | <b>7,650</b>    | 7,127         |

The notes on pages 41 to 69 form part of these financial statements.

## Company statement of cash flows

For the year ended 31 March 2019

|   | 2019<br>£'000   | 2018<br>£'000 |
|---|-----------------|---------------|
| <b>Cash flows from operating activities</b>                     |                 |               |
| Profit/(loss) before income tax                                 | 1,520           | 9,495         |
| Depreciation and amortisation                                   | 1,754           | 1,988         |
| Adjustment to deferred consideration                            | 586             | —             |
| Share-based payments  | 68              | 40            |
| Net finance costs   | 1,917           | 1,561         |
| <b>Operating cash flows before movements in working capital</b> | <b>5,845</b>    | 13,084        |
| Decrease/(increase) in inventories                              | 1               | —             |
| Decrease/(increase) in trade and other receivables              | (2,681)         | (390)         |
| (Decrease)/increase in trade and other payables                 | 1,601           | 1,865         |
| Cash generated from operations                                  | 4,766           | 14,559        |
| Income taxes paid   | (315)           | (345)         |
| <b>Net cash from operating activities</b>                       | <b>4,451</b>    | 14,214        |
| <b>Cash flows from investing activities</b>                     |                 |               |
| Interest paid   | (1,420)         | (909)         |
| Acquisition of subsidiaries net of cash acquired                | (11,254)        | (22,436)      |
| Purchase of intangible assets                                   | (7)             | (39)          |
| Purchase of property, plant and equipment                       | (342)           | (26)          |
| <b>Net cash used in investing activities</b>                    | <b>(13,023)</b> | (23,410)      |
| <b>Cash flows from financing activities</b>                     |                 |               |
| Dividends paid  | (2,074)         | (1,837)       |
| Increase in bank loan   | 10,000          | 11,500        |
| Repayment of borrowings   | —               | (2,750)       |
| Issue of convertible loan note                                  | —               | 7,294         |
| <b>Net cash from financing activities</b>                       | <b>7,926</b>    | 14,207        |
| <b>Net (decrease)/increase in cash and cash equivalents</b>     | <b>(646)</b>    | 5,011         |
| <b>Cash and cash equivalents at beginning of year</b>           | <b>4,305</b>    | (706)         |
| <b>Cash and cash equivalents at end of year</b>                 | <b>3,659</b>    | 4,305         |
| <b>Cash and cash equivalents</b>                                |                 |               |
| Cash at bank and in hand  | 3,659           | 4,305         |
| Short-term borrowings   | —               | —             |
| <b>Cash and cash equivalents</b>                                | <b>3,659</b>    | 4,305         |

The notes on pages 41 to 69 form part of these financial statements.

# Notes to the financial statements

For the year ended 31 March 2019

## 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, Wi-Fi, IT and communications hardware and data connectivity products.

AdEPT is incorporated under the Companies Act 2006 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' was considered to be relevant.

The Group has undertaken a detailed assessment to determine the impact of adopting IFRS 16, with initial application from 1 April 2019, which introduces for certain lease contracts significant changes to the allocation of the costs in the statement of comprehensive income; it is estimated that the changes will increase operating profit and EBITDA by approximately £0.5m but it is not expected to have a material impact on profit before tax. It is expected that the recognition of lease assets and liabilities will increase the gross value of assets and liabilities by approximately £2.0m and decrease net current assets by £2.0m.

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 the 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 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. 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.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 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 | <p>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.</p> <p>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.</p> <p>The performance obligations of calls and line rental services are fulfilled in the month in which the services are consumed by customers.</p> <p>Customer payment terms are 14 days from invoice for call usage and line rental services.</p>  |
| Managed services    | Data networks         | <p>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.</p> <p>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.</p> <p>All equipment required for data connectivity services is covered by a standard manufacturer warranty which is provided back to back with customer terms.</p> <p>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.</p> |
| Managed services    | Sale of goods         | <p>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.</p> <p>The performance obligations of the supply of goods and equipment are met when the goods have been delivered, configured and installed.</p> <p>All goods supplied are covered by a standard manufacturer warranty which is provided back to back with customer terms.</p> <p>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.</p>  |
| Managed services    | Support services      | <p>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.</p> <p>The performance obligations of support services are fulfilled in the month in which the services are consumed by customers.</p> <p>Customer payment terms are 14–30 days from invoice date; support services are invoiced and paid for up to twelve months in advance.</p>  |

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              |
| Customer relationships     | – | Ten to seventeen years straight line  |

### Investments

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

The Group has applied IFRS 9 in accordance with the transitional provisions with an opening adjustment to equity and has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

### Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

### 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 impairment testing of trade receivables is described in Note 19.

### 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                                       |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 2. Accounting policies continued

#### 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.

#### 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 it is 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 reporting 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.

## 2. Accounting policies continued

### 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 at the Group's reporting date 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 20 and 28, 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 IFRS 9.

The Group has applied the principles of IAS 32 and IFRS 9 in the recognition and measurement of the convertible loan. The net present value of the loan has been split between the debt and equity components and an amount has been recorded in equity, with the balance being included within long-term debt. The net present value discount and the transaction costs are being recognised in the interest charge in the statement of comprehensive income across the term of the convertible instrument.

## 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:

### Goodwill and intangible impairment

The basis of judgement in respect of goodwill and intangible impairment reviews are set out in Notes 13 and 14.

### Intangible valuation

The valuation of intangible assets (for example customer bases) is calculated by reference to the discounted cash flow generated by the separable intangible assets which have been acquired. Details of the assumptions used in measuring the fair value of intangible assets on acquisition are set out in Note 14.

### Estimate of contingent consideration

Part of the initial valuation of intangible assets requires an estimate of the contingent deferred consideration payable in respect of business combinations. This estimate is reviewed at the end of each accounting period, and details of the assumptions and the current valuation are included in Note 30.

### Credit losses on bad debts

Management reviews are performed to estimate the level of provision required for irrecoverable debt under the requirements of IFRS 9. Provisions are made specifically against invoices where recoverability is uncertain. Further information on the receivables allowance account is given in Note 19.

### Identification of intangible assets

The allocation of the value of the excess consideration less the net assets acquired are identified as intangible assets arising as part of a business combination, these require judgement in respect of the separately identifiable intangible assets that have been acquired. These judgements are based upon the directors' opinion of the identifiable assets from which economic benefits are derived.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 4. Changes in accounting policy

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

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

#### IFRS 9 'Financial Instruments'

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2 above. In accordance with the transitional provisions in IFRS 9 comparative figures have not been restated.

The following tables summarise the impacts of adopting IFRS 9 on the Group's consolidated financial statements for the year ended 31 March 2019:

| £'000  | As reported   | Adjustments | Balances without adoption of IFRS 9 |
|--|---------------|-------------|-------------------------------------|
| <b>Assets</b>                                |               |             |                                     |
| <b>Non-current assets</b>                    | <b>57,538</b> | —           | <b>57,538</b>                       |
| Inventories                                  | 543           | —           | 543                                 |
| Contract assets                              | 953           | —           | 953                                 |
| Trade and other receivables                  | 10,349        | 107         | 10,456                              |
| Cash and cash equivalents                    | 7,650         | —           | 7,650                               |
| <b>Current assets</b>                        | <b>19,495</b> | 107         | <b>19,602</b>                       |
| <b>Total assets</b>                          | <b>77,033</b> | 107         | <b>77,140</b>                       |
| <b>Total liabilities</b>                     | <b>61,214</b> | —           | <b>61,214</b>                       |
| <b>Net assets</b>                            | <b>15,819</b> | 107         | <b>15,926</b>                       |
| <b>Equity attributable to equity holders</b> |               |             |                                     |
| Share capital                                | 2,370         | —           | 2,370                               |
| Share premium                                | 479           | —           | 479                                 |
| Share option reserve                         | 1,079         | —           | 1,079                               |
| Capital redemption reserve                   | 18            | —           | 18                                  |
| Retained earnings                            | 11,873        | 107         | 11,980                              |
| <b>Total equity</b>                          | <b>15,819</b> | 107         | <b>15,926</b>                       |

The Group has recognised the cumulative effect of initially applying IFRS 9 with an opening adjustment to equity of £99,044 at 1 April 2018. The net impact on profit before tax of applying IFRS 9 in the year ended 31 March 2019 was £8,150, resulting in a net adjustment to retained earnings at 31 March 2019 of £107,195.

The impact of the adoption of IFRS 9 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.

| £'000                                | Year ended 31 March 2019 |                  |                |               | Year ended 31 March 2018 |                  |                |              |
|--------------------------------------|--------------------------|------------------|----------------|---------------|--------------------------|------------------|----------------|--------------|
|                                      | Fixed line services      | Managed services | Central costs  | Total         | Fixed line services      | Managed services | Central costs  | Total        |
| Revenue                              | 12,814                   | 38,494           | —              | 51,308        | 14,001                   | 32,433           | —              | 46,434       |
| Gross profit                         | 4,904                    | 20,438           | —              | 25,342        | 5,439                    | 17,480           | —              | 22,919       |
| Gross margin %                       | 38.3%                    | 53.1%            | —              | 49.4%         | 38.8%                    | 53.9%            | —              | 49.4%        |
| Administrative expenses              | (2,120)                  | (12,427)         | —              | (14,547)      | (2,562)                  | (10,586)         | —              | (13,148)     |
| <b>Underlying EBITDA</b>             | <b>2,784</b>             | <b>8,011</b>     | <b>—</b>       | <b>10,795</b> | <b>2,877</b>             | <b>6,894</b>     | <b>—</b>       | <b>9,771</b> |
| <b>Underlying EBITDA %</b>           | <b>21.7%</b>             | <b>20.8%</b>     | <b>—</b>       | <b>21.0%</b>  | <b>20.5%</b>             | <b>21.3%</b>     | <b>—</b>       | <b>21.0%</b> |
| Amortisation                         | (1,509)                  | (3,059)          | —              | (4,568)       | (2,071)                  | (1,659)          | —              | (3,730)      |
| Depreciation                         | —                        | —                | (633)          | (633)         | —                        | —                | (418)          | (418)        |
| Adjustment to deferred consideration | —                        | —                | (586)          | (586)         | —                        | —                | (28)           | (28)         |
| Acquisition costs                    | —                        | —                | (495)          | (495)         | —                        | —                | (229)          | (229)        |
| Compensation credits                 | —                        | —                | —              | —             | —                        | —                | 755            | 755          |
| Restructuring costs                  | —                        | —                | (105)          | (105)         | —                        | —                | —              | —            |
| Share-based payments                 | —                        | —                | (68)           | (68)          | —                        | —                | (40)           | (40)         |
| <b>Operating profit/(loss)</b>       | <b>1,275</b>             | <b>4,952</b>     | <b>(1,887)</b> | <b>4,340</b>  | <b>806</b>               | <b>5,236</b>     | <b>39</b>      | <b>6,081</b> |
| Finance costs                        | —                        | —                | (1,902)        | (1,902)       | —                        | —                | (1,561)        | (1,561)      |
| Income tax                           | —                        | —                | (571)          | (571)         | —                        | —                | (584)          | (584)        |
| <b>Profit/(loss) after tax</b>       | <b>1,275</b>             | <b>4,952</b>     | <b>(4,360)</b> | <b>1,867</b>  | <b>806</b>               | <b>5,236</b>     | <b>(2,106)</b> | <b>3,936</b> |

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 2018 or 2019.

## 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.

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Sale of goods                               | 10,969        | 10,003        |
| Provision of services:                      |               |               |
| – calls and line rental                     | 12,814        | 14,001        |
| – data networks                             | 11,901        | 10,211        |
| – support services                          | 11,981        | 8,847         |
| – other services                            | 3,643         | 3,372         |
|   | <b>51,308</b> | <b>46,434</b> |
| Timing of revenue recognition               |               |               |
| Products transferred at a point in time     | 10,969        | 10,003        |
| Products and services transferred over time | 40,339        | 36,431        |
|   | <b>51,308</b> | <b>46,434</b> |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 6. Revenue continued

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

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Receivables, which are included in 'Trade and other receivables' | 7,018         | 4,008         |
| Contract assets  | 953           | 423           |
| Contract liabilities   | (1,976)       | (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:

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Revenue deferred into future periods           | (1,976)       | (568)         |
| Deferred revenue recognised in the period      | 1,582         | 18            |
| Direct costs deferred into future periods      | 953           | 423           |
| Deferred direct costs recognised in the period | 921           | (47)          |

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. There was no impact of IFRS 15 in respect of acquisitions completed during the year.

### 7. Operating profit

The operating profit is stated after charging/(crediting):

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Amortisation of customer base, billing system and licence | 4,568         | 3,730         |
| Depreciation of tangible fixed assets:                    |               |               |
| – owned by the Group                                      | 633           | 418           |
| Share option expense/(credit)                             | 68            | 40            |
| Minimum operating lease payments:                         |               |               |
| – land and buildings                                      | 556           | 466           |
| – motor vehicles and other equipment                      | 70            | 76            |
| Acquisition costs   | 495           | 229           |
| Restructuring costs                                       | 105           | —             |
| Compensation credit                                       | —             | (755)         |

Acquisition costs relate to the legal and professional fees incurred as a direct result of acquisitions completed during the year. Restructuring costs relate to the acquisition operating costs (from the date of acquisition) which have been either terminated or notice to terminate has been served and therefore these items will not form part of the future operating costs of the Group.

### 8. Auditor's remuneration

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Fees payable to the Group's auditor for the audit of the Group's annual financial statements | 37            | 36            |
| Fees payable to the Group's auditor and its associates in respect of:                        |               |               |
| – audit of subsidiaries  | 67            | 52            |
| – other services relating to taxation  | 23            | 20            |

## 9. Finance costs

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| On bank loans and overdrafts             | 1,514         | 1,122         |
| Bank fees                                | 306           | 136           |
| Finance cost on contingent consideration | 82            | 303           |
|  | <b>1,902</b>  | 1,561         |

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:

|                       | 2019<br>£'000 | 2018<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 10,496        | 8,296         |
| Social security costs | 1,201         | 960           |
| Share option expense  | 68            | 40            |
| Other pension costs   | 193           | 114           |
|                       | <b>11,958</b> | 9,410         |

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

|                         | 2019<br>Number | 2018<br>Number |
|-------------------------|----------------|----------------|
| Non-executive directors | 3              | 3              |
| Administrative staff    | 228            | 176            |
|                         | <b>231</b>     | 179            |

### 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

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| <b>Current tax</b>                               |               |               |
| UK corporation tax on profit for the year        | 1,372         | 1,428         |
| Adjustments in respect of prior periods          | (60)          | (325)         |
| <b>Total current tax</b>                         | <b>1,312</b>  | 1,103         |
| <b>Deferred tax</b>                              |               |               |
| Origination and reversal of timing differences:  |               |               |
| – fixed assets and short-term timing differences | (53)          | (22)          |
| – share options                                  | (4)           | (3)           |
| – goodwill on business combinations              | (668)         | (506)         |
| Effect of tax rate change on opening balance     | (28)          | —             |
| Adjustments in respect of prior periods          | 12            | 12            |
| <b>Total deferred tax (see Note 16)</b>          | <b>(741)</b>  | (519)         |
| <b>Total income tax expense</b>                  | <b>571</b>    | 584           |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 11. Income tax expense continued

#### Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 19% (2018: 19%) and the tax expense actually recognised in the income statement can be reconciled as follows:

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Profit before income tax   | 2,438         | 4,520         |
| Tax rate   | 19%           | 19%           |
| <b>Expected tax charge</b>   | <b>463</b>    | 859           |
| Expenses not deductible for tax purposes                                   | 241           | 126           |
| Adjustments to tax charge in respect of prior periods                      | (48)          | (313)         |
| Depreciation/amortisation on non-qualifying assets                         | 8             | 13            |
| Unprovided deferred tax movement   | —             | —             |
| Difference due to deferred tax rate being lower than the standard tax rate | 58            | 63            |
| Share option relief  | —             | —             |
| R&D enhanced tax deduction   | (137)         | (95)          |
| RDEC credit taxed  | (16)          | 3             |
| Prior year IFRS 15 adjustment  | —             | (33)          |
| Group relief claim   | —             | (29)          |
| Other  | 2             | (10)          |
| <b>Actual tax expense net</b>  | <b>571</b>    | 584           |

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

### 12. Dividends

On 27 September 2018 the directors approved an interim dividend of 4.90p per ordinary share (2018: 4.25p), which was paid to shareholders on 8 April 2019. On 3 April 2019 the directors proposed a final dividend, subject to shareholder approval at the 2019 annual general meeting, of 4.90p per ordinary share (2018: 4.50p). Total dividends proposed in respect of the year ended 31 March 2019 will absorb £2,322,780 of shareholders' funds in future periods (2018: £2,073,910).

On 7 April 2018 the Company paid dividends of £1,007,328 in relation to the interim dividend declared in September 2017. On 8 October 2018 the Company paid dividends of £1,066,582 in relation to the final dividend declared in March 2018. Total dividends paid in the year ended 31 March 2019 absorbed £2,073,910 of cash (2018: £1,836,892).

### 13. Goodwill

#### Group

|                         | Total<br>£'000 |
|-------------------------|----------------|
| <b>Cost</b>             |                |
| At 1 April 2017         | 13,301         |
| Additions               | 3,313          |
| At 1 April 2018         | 16,614         |
| Additions               | 1,494          |
| <b>At 31 March 2019</b> | <b>18,108</b>  |
| <b>Impairment</b>       |                |
| At 1 April 2017         | (2,084)        |
| Impairment charge       | —              |
| At 1 April 2018         | (2,084)        |
| Impairment charge       | —              |
| <b>At 31 March 2019</b> | <b>(2,084)</b> |
| <b>Net book value</b>   |                |
| <b>At 31 March 2019</b> | <b>16,024</b>  |
| At 31 March 2018        | 14,531         |

### 13. Goodwill continued

#### Group continued

We perform an annual goodwill impairment review and we tested our goodwill for impairment as at 31 March 2019.

Goodwill is recognised when a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash-generating unit (CGU) level. These CGUs represent the smallest identifiable group of assets that generate cash flows. Our CGUs are deemed to be the assets within the operating units. Each CGU to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The total intangible value in use for each CGU, incorporating goodwill and the intangible asset value, is determined using discounted cash flow projections derived from the total historical revenue profile of each identifiable CGU. The assumptions which are applied to each CGU in respect of churn rate, discount rate, margin and useful economic life are set out in Note 14.

The goodwill is split by CGU as follows:

|                            | March<br>2019<br>£'000 | March<br>2018<br>£'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                  | 3,313                  |
| Shift F7 Limited           | 879                    | —                      |
| ETS Limited                | 615                    | —                      |

The net present value of the future cash flows for the CGUs 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 7.8%. An increase in the Group's weighted average cost of capital to above 11.0% would materially impair the carrying value of the Group's goodwill by more than £400,000. Further details of the sensitivity of the variables used in the impairment testing are included in Note 14.

### 14. Intangible fixed assets

#### Group

|                          | Licence<br>£'000 | Computer<br>software<br>£'000 | Customer<br>base<br>£'000 | Software<br>apps<br>£'000 | Website<br>£'000 | Total<br>£'000 |
|--------------------------|------------------|-------------------------------|---------------------------|---------------------------|------------------|----------------|
| <b>Cost</b>              |                  |                               |                           |                           |                  |                |
| 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 1 April 2018          | 41               | 1,339                         | 55,543                    | 3,535                     | 1,744            | 62,202         |
| Additions                | 56               | 6                             | 5,873                     | —                         | 1                | 5,936          |
| Acquired with subsidiary | 57               | —                             | 2,908                     | —                         | —                | 2,965          |
| <b>At 31 March 2019</b>  | <b>154</b>       | <b>1,345</b>                  | <b>64,324</b>             | <b>3,535</b>              | <b>1,745</b>     | <b>71,103</b>  |
| <b>Amortisation</b>      |                  |                               |                           |                           |                  |                |
| 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 1 April 2018          | 28               | 1,283                         | 24,740                    | 236                       | 249              | 26,536         |
| Charge for the year      | 29               | 37                            | 3,778                     | 350                       | 374              | 4,568          |
| Impairment charge        | —                | —                             | —                         | —                         | —                | —              |
| <b>At 31 March 2019</b>  | <b>57</b>        | <b>1,320</b>                  | <b>28,518</b>             | <b>586</b>                | <b>623</b>       | <b>31,104</b>  |
| <b>Net book value</b>    |                  |                               |                           |                           |                  |                |
| <b>At 31 March 2019</b>  | <b>97</b>        | <b>25</b>                     | <b>35,806</b>             | <b>2,949</b>              | <b>1,122</b>     | <b>39,999</b>  |
| At 31 March 2018         | 13               | 56                            | 30,803                    | 3,299                     | 1,495            | 35,666         |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 14. Intangible fixed assets continued

Group continued

Included within the Group's intangible assets is:

|  | Useful life | March 2019<br>£'000 | March 2018<br>£'000 |
|--|-------------|---------------------|---------------------|
| Centrix Limited  | 17 years    | 7,119               | 7,664               |
| Comms Group UK Limited   | 17 years    | 3,952               | 4,331               |
| Our IT Department Limited  | 17 years    | 2,610               | 2,999               |
| CAT Communications Limited   | 10 years    | 1,008               | 1,055               |
| Atomwide Limited – customer base                                   | 16 years    | 6,024               | 6,751               |
| Atomwide Limited – software/apps                                   | 5 years     | 2,949               | 3,299               |
| Shift F7 Limited   | 10 years    | 4,813               | —                   |
| ETS Communications Limited   | 10 years    | 3,472               | —                   |
| Other customer bases – AdEPT Technology Group plc trading business | 10–16 years | 7,930               | 9,497               |

### Company

|                         | Licence<br>£'000 | Computer<br>software<br>£'000 | Customer<br>base<br>£'000 | Total<br>£'000 |
|-------------------------|------------------|-------------------------------|---------------------------|----------------|
| <b>Cost</b>             |                  |                               |                           |                |
| At 1 April 2017         | 26               | 1,300                         | 32,045                    | 33,371         |
| Additions               | —                | 39                            | —                         | 39             |
| At 1 April 2018         | 26               | 1,339                         | 32,045                    | 33,410         |
| Additions               | —                | 6                             | —                         | 6              |
| <b>At 31 March 2019</b> | <b>26</b>        | <b>1,345</b>                  | <b>32,045</b>             | <b>33,416</b>  |
| <b>Amortisation</b>     |                  |                               |                           |                |
| 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 1 April 2018         | 26               | 1,283                         | 22,606                    | 23,915         |
| Charge for the year     | —                | 37                            | 1,509                     | 1,546          |
| Impairment charge       | —                | —                             | —                         | —              |
| <b>At 31 March 2019</b> | <b>26</b>        | <b>1,320</b>                  | <b>24,115</b>             | <b>25,461</b>  |
| <b>Net book value</b>   |                  |                               |                           |                |
| <b>At 31 March 2019</b> | <b>—</b>         | <b>25</b>                     | <b>7,930</b>              | <b>7,955</b>   |
| At 31 March 2018        | —                | 56                            | 9,439                     | 9,495          |

## 14. Intangible fixed assets continued

### Critical accounting estimates and key judgements made in reviewing intangible assets and goodwill for impairment

The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of intangible assets and goodwill, are discussed below.

#### Measuring the fair value of intangible assets on acquisition

The main estimates used to measure the fair value of the intangible assets on acquisition are:

- > churn rate;
- > discount rate; and
- > gross margins.

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 2019 the net present value of future cash flows of certain cash-generating units was above the carrying value and an impairment charge of £Nil (2018: £212,850) has been recorded.

We tested our intangible assets and goodwill for impairment as at 31 March 2019. The carrying value of the intangible assets and the key assumptions used in performing the annual impairment assessment and sensitives are disclosed below:

|                                  | Book value of<br>cash-generating<br>unit<br>£'000 | Estimated<br>value in use<br>£'000 |
|----------------------------------|---|------------------------------------|
| Centrix Limited                  | 7,119   | 18,720                             |
| Comms Group UK Limited           | 3,951   | 4,509                              |
| Our IT Department Limited        | 2,610   | 4,734                              |
| CAT Communications Limited       | 1,009   | 1,762                              |
| Atomwide Limited – customer base | 6,024   | 8,229                              |
| Atomwide Limited – software/apps | 2,949   | 4,029                              |
| Shift F7 Limited                 | 4,813   | 4,960                              |
| ETS Communications Limited       | 3,477   | 3,938                              |

#### What discount rate have we used?

The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital (WACC) of 7.8% (2018: 7.2%). The WACC 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. An increase in the Group's weighted average cost of capital to above 11.0% would materially impair the carrying value of the Group's intangible assets by more than £400,000.

#### What churn rate have we used?

For the customer bases which have been fully integrated into the AdEPT Technology Group plc trading business in Tunbridge Wells, the churn rate of 6.6% per annum is based upon the actual historical churn rate of the revenue stream from the customer bases.

For Centrix, Comms Group, Our IT Department, CAT Communications, Atomwide, Shift F7 and ETS Communications the net present value of the discounted future cash flows is based on the actual revenues of the acquired customer bases. The actual historical churn rates for the acquired customer bases vary between nil and 3.7% per annum. Where an acquired customer base has shown growth, a default churn assumption of 3–4% per annum has been applied.

For the software and apps which have been developed by Atomwide the net present value of the discounted future cash flows is based on the actual revenues being derived from the customer base to which the software licences and charges relate. The actual historical churn rates for the software and app revenue stream is 1.8% per annum, but a default churn rate of 3% per annum has been applied for the purpose of impairment testing.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 14. Intangible fixed assets continued

#### What margin have we used?

Gross margins applied are based upon actual margins achieved by the customer bases in the current and previous years. A proportion of overheads are applied to the gross margin to represent the actual operating cost required to support the acquired customer revenue stream, resulting in a net margin which is used for the discounted net present valuation.

#### What is the estimated useful life of customer bases?

The method used to estimate the useful life of each customer base to conduct the impairment review is the revenue churn rate. The average useful economic life of all the customer bases has been estimated at 15 years (2018: 14 years) with a range of 10 to 17 years.

#### What sensitivities have we applied?

The calculations are sensitive to movements in the discount rate, margin or churn rate and may 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 no additional impairment charges.

### 15. Investments in subsidiaries

#### Company

|                             | Company<br>£'000 | Total<br>£'000 |
|-----------------------------|------------------|----------------|
| <b>Cost</b>                 |                  |                |
| At 1 April 2017             | 26,542           | 26,542         |
| Additions                   | 19,728           | 19,728         |
| Disposals                   | —                | —              |
| At 1 April 2018             | 46,270           | 46,270         |
| Additions                   | 7,476            | 7,476          |
| Disposals                   | (2,757)          | (2,757)        |
| <b>At 31 March 2019</b>     | <b>50,989</b>    | <b>50,989</b>  |
| <b>Amounts written off</b>  |                  |                |
| At 1 April 2017             | —                | —              |
| Written off during the year | —                | —              |
| At 1 April 2018             | —                | —              |
| Written off during the year | —                | —              |
| <b>At 31 March 2019</b>     | <b>—</b>         | <b>—</b>       |
| <b>Net book value</b>       |                  |                |
| <b>At 31 March 2019</b>     | <b>50,989</b>    | <b>50,989</b>  |
| At 31 March 2018            | 46,270           | 46,270         |

During the year the Company transferred its investments in ETS Communications Limited of £2.757m to Comms Group (UK) Limited as the customer base is being serviced and managed by Comms Group (UK) Limited.

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



## 16. Property, plant and equipment

### Group

|                          | Motor<br>vehicles<br>£'000 | Short-term<br>leasehold<br>improvements<br>£'000 | Fixtures<br>and<br>fittings<br>£'000 | Office<br>equipment<br>£'000 | Total<br>£'000 |
|--------------------------|----------------------------|--|--------------------------------------|------------------------------|----------------|
| <b>Cost</b>              |                            |  |                                      |                              |                |
| 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 1 April 2018          | 148                        | 263  | 447                                  | 1,242                        | 2,100          |
| Acquired with subsidiary | 93                         | —  | 103                                  | 252                          | 448            |
| Additions                | —                          | 31   | 21                                   | 512                          | 564            |
| Disposals                | (132)                      | —  | (2)                                  | (65)                         | (199)          |
| <b>At 31 March 2019</b>  | <b>109</b>                 | <b>294</b>                                       | <b>569</b>                           | <b>1,941</b>                 | <b>2,913</b>   |
| <b>Depreciation</b>      |                            |  |                                      |                              |                |
| At 1 April 2017          | 30                         | 7  | 208                                  | 446                          | 691            |
| Charge for the year      | 38                         | 14   | 70                                   | 295                          | 417            |
| Disposals                | —                          | —  | —                                    | (122)                        | (122)          |
| At 1 April 2018          | 68                         | 21   | 278                                  | 619                          | 986            |
| Charge for the year      | 72                         | 23   | 94                                   | 444                          | 633            |
| Disposals                | (113)                      | —  | (1)                                  | (64)                         | (178)          |
| <b>At 31 March 2019</b>  | <b>27</b>                  | <b>44</b>  | <b>371</b>                           | <b>999</b>                   | <b>1,441</b>   |
| <b>Net book value</b>    |                            |  |                                      |                              |                |
| <b>At 31 March 2019</b>  | <b>82</b>                  | <b>250</b>                                       | <b>198</b>                           | <b>942</b>                   | <b>1,472</b>   |
| At 31 March 2018         | 80                         | 242  | 169                                  | 623                          | 1,114          |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 16. Property, plant and equipment continued

#### Company

|                          | Motor vehicles<br>£'000 | Short-term leasehold improvements<br>£'000 | Fixtures and fittings<br>£'000 | Office equipment<br>£'000 | Total<br>£'000 |
|--------------------------|-------------------------|--|--------------------------------|---------------------------|----------------|
| <b>Cost</b>              |                         |  |                                |                           |                |
| At 1 April 2017          | 105                     | 7  | 208                            | 356                       | 676            |
| Additions                | —                       | —  | 7                              | 19                        | 26             |
| Disposals                | —                       | —  | —                              | —                         | —              |
| At 1 April 2018          | 105                     | 7  | 215                            | 375                       | 702            |
| Additions                | —                       | —  | 11                             | 332                       | 343            |
| Transfer from subsidiary | —                       | —  | —                              | 207                       | 207            |
| Disposals                | —                       | —  | —                              | —                         | —              |
| <b>At 31 March 2019</b>  | <b>105</b>              | <b>7</b>                                   | <b>226</b>                     | <b>914</b>                | <b>1,252</b>   |
| <b>Depreciation</b>      |                         |  |                                |                           |                |
| At 1 April 2017          | 30                      | 7  | 170                            | 332                       | 539            |
| Charge for the year      | 27                      | —  | 24                             | 17                        | 68             |
| Disposals                | —                       | —  | —                              | —                         | —              |
| At 1 April 2018          | 57                      | 7  | 194                            | 349                       | 607            |
| Charge for the year      | 26                      | —  | 21                             | 121                       | 168            |
| Transfer from subsidiary | —                       | —  | —                              | 40                        | 40             |
| Disposals                | —                       | —  | —                              | —                         | —              |
| <b>At 31 March 2019</b>  | <b>83</b>               | <b>7</b>                                   | <b>215</b>                     | <b>510</b>                | <b>815</b>     |
| <b>Net book value</b>    |                         |  |                                |                           |                |
| <b>At 31 March 2019</b>  | <b>22</b>               | <b>—</b>                                   | <b>11</b>                      | <b>404</b>                | <b>437</b>     |
| At 31 March 2018         | 48                      | —  | 21                             | 26                        | 95             |

### 17. Deferred taxation

|   | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| At 1 April 2018   | (5,590)                | (140)                    | (4,057)                | 43                       |
| Income statement credit/(charge)                                | 741                    | 7                        | 519                    | 18                       |
| Movement in deferred tax on share options taken to equity       | 11                     | 11                       | 19                     | 19                       |
| Deferred tax provision on convertible loan note taken to equity | —                      | —                        | (220)                  | (220)                    |
| Deferred tax acquired   | (32)                   | —                        | (22)                   | —                        |
| Deferred tax on business combination                            | (1,492)                | —                        | (1,829)                | —                        |
| <b>At 31 March 2019</b>   | <b>(6,362)</b>         | <b>(122)</b>             | <b>(5,590)</b>         | <b>(140)</b>             |

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

|                                       | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|---------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Capital allowances                    | (73)                   | (23)                     | (49)                   | 9                        |
| Short-term timing differences         | 49                     | 7                        | 33                     | 16                       |
| Convertible loan note equity element  | (164)                  | (164)                    | (208)                  | (208)                    |
| Deferred tax on business combinations | (6,232)                | —                        | (5,409)                | —                        |
| Share options                         | 58                     | 58                       | 43                     | 43                       |
|                                       | <b>(6,362)</b>         | <b>(122)</b>             | <b>(5,590)</b>         | <b>(140)</b>             |

## 18. Inventories

|             | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|-------------|------------------------|--------------------------|------------------------|--------------------------|
| Consumables | 543                    | —                        | 266                    | 1                        |

As at 31 March 2019, inventories of £157,468 (2018: £100,171) were fully provided for. During the year £3,891,041 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

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-generating unit.

|                   | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|-------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trade receivables | 6,949                  | 2,439                    | 3,955                  | 1,015                    |
| Other receivables | 70                     | 7                        | 53                     | 7                        |
| Income tax        | —                      | 42                       | —                      | —                        |
| Prepayments       | 2,844                  | 807                      | 1,477                  | 200                      |
| Accrued income    | 486                    | 26                       | 382                    | 138                      |
|                   | <b>10,349</b>          | <b>3,321</b>             | 5,867                  | 1,360                    |

The Group has one type of financial assets that are subject to IFRS 9's new expected credit loss model:

- > trade receivables for sales of inventory and from the provisions of consulting services.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 4 above.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 19. Trade and other receivables continued

#### Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 April 2018 by £99,044 for trade receivables.

As at 31 March 2019, trade receivables of £326,039 (2018: £120,298) were fully provided for.

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<br>£'000 | Company<br>£'000 |
|--|----------------|------------------|
| At 1 April 2017  | 215            | 129              |
| Receivables provided for during the year as uncollectable            | —              | —                |
| Receivables collected during the year which were previously provided | (74)           | (18)             |
| At 1 April 2018  | 141            | 111              |
| Change of accounting policy  | 99             | (9)              |
| At 1 April 2018 adjusted   | 240            | 102              |
| Receivables provided for during the year as uncollectable            | 86             | 33               |
| Receivables collected during the year which were previously provided | —              | (15)             |
| <b>At 31 March 2019</b>  | <b>326</b>     | <b>120</b>       |

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.

### 20. Trade and other payables

|                                       | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|---------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trade payables                        | 3,632                  | 950                      | 2,292                  | 608                      |
| Other taxes and social security costs | 1,593                  | 373                      | 1,407                  | 435                      |
| Other payables                        | 148                    | 41                       | 44                     | 34                       |
| Amounts owed to Group undertakings    | —                      | 815                      | —                      | 3,222                    |
| Accruals and deferred income          | 4,443                  | 641                      | 3,729                  | 1,046                    |
| Contingent consideration              | 1,249                  | 1,249                    | 4,360                  | 4,360                    |
|                                       | <b>11,065</b>          | <b>4,069</b>             | 11,832                 | 9,705                    |

The contingent consideration liability of £1,249,205 (2018: £4,359,527) 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

|                            | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|----------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Between one and two years  | —                      | —                        | —                      | —                        |
| Between two and five years | 34,730                 | 34,730                   | 24,749                 | 24,749                   |
| More than five years       | 6,174                  | 6,174                    | 6,011                  | 6,011                    |
| Bank loans                 | 40,904                 | 40,904                   | 30,760                 | 30,760                   |

The bank loan of £34,729,629 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 £6,174,374 which is the debt component of the convertible loan instrument from BGF. This loan instrument is subordinated 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 £272,203 (2018: £251,435) which are being released over the term of the loan in accordance with IFRS 9.

## 22. Share capital

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| <b>Authorised</b>   |               |               |
| 65,000,000 ordinary shares of 10p each                    | 6,500         | 6,500         |
| <b>Allotted, called up and fully paid</b>                 |               |               |
| 23,701,832 (2018: 23,701,832) ordinary shares of 10p each | 2,370         | 2,370         |

### 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 2019 the Company repurchased no shares (2018: nil).

### Share options

At 31 March 2019, the following options and warrants over the shares of AdEPT were in issue:

|                                | 2019                          |                                 | 2018                          |                                 |
|--------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
|                                | Number of shares under option | Weighted average exercise price | Number of shares under option | Weighted average exercise price |
| Outstanding at 1 April         | 2,488,410                     | 361p                            | 392,500                       | 228p                            |
| Granted during the year        | 437,018                       | 361p                            | 2,095,910                     | 386p                            |
| Exercised during the year      | —                             | —                               | —                             | —                               |
| <b>Outstanding at 31 March</b> | <b>2,925,428</b>              | <b>361p</b>                     | <b>2,488,410</b>              | <b>361p</b>                     |

240,000 share options were available for exercise at 31 March 2019. The weighted average remaining contractual life of share options and warrants at 31 March 2019 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.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 22. Share capital continued

#### Share options continued

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:

|  | 2019  | 2018  |
|--|-------|-------|
| Risk-free interest rate                        | 1.68% | 1.68% |
| Expected volatility                            | 18.0% | 17.0% |
| Expected option life (years)                   | 3.0   | 3.0   |
| Expected dividend yield                        | 2.6%  | 2.7%  |
| Weighted average share price                   | 365p  | 335p  |
| Weighted average exercise price                | 361p  | 335p  |
| Weighted average fair value of options granted | 32p   | 32p   |

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 2.6%; this is based upon the past dividend yield of AdEPT Technology Group plc and in accordance with the guidance in IFRS 2.

|                | Exercise price (p) | Expected option life (years) | 31 March 2019 No. of options | 31 March 2018 No. of options |
|----------------|--------------------|------------------------------|------------------------------|------------------------------|
| 1 March 2016   | 222                | 10                           | 240,000                      | 240,000                      |
| 1 October 2016 | 238                | 10                           | 152,500                      | 152,500                      |
| 2 August 2017  | 335                | 10                           | 240,000                      | 240,000                      |
| 2 August 2017  | 393                | 7                            | 1,855,910                    | 1,855,910                    |
| 21 August 2018 | 353                | 10                           | 200,000                      | —                            |
| 1 January 2019 | 368                | 10                           | 237,018                      | —                            |
|                |                    |                              | <b>2,925,428</b>             | 2,488,410                    |

The closing price of the ordinary shares on 31 March 2019 was 321p and the range during the year was 110p.

### 23. Pension commitments

At 31 March 2019 there were no pension commitments (2018: £Nil).

### 24. Operating lease commitments

At 31 March 2019 the lease commitments were as follows:

#### Group

|                            | Land and buildings |               | Other         |               |
|----------------------------|--------------------|---------------|---------------|---------------|
|                            | 2019<br>£'000      | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| Within one year            | 542                | 414           | 123           | 61            |
| Between two and five years | 1,805              | 1,341         | 92            | 38            |

#### Company

|                            | Land and buildings |               | Other         |               |
|----------------------------|--------------------|---------------|---------------|---------------|
|                            | 2019<br>£'000      | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| Within one year            | 120                | 29            | 25            | 37            |
| Between two and five years | 371                | —             | 13            | 22            |

#### 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 between five and ten 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 2019 the lease rental commitments outstanding from customers were as follows:

### Group

|                            | Land and buildings |               | Other         |               |
|----------------------------|--------------------|---------------|---------------|---------------|
|                            | 2019<br>£'000      | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| Within one year            | —                  | —             | 89            | 117           |
| Between two and five years | —                  | —             | 21            | 79            |

### Company

|                            | Land and buildings |               | Other         |               |
|----------------------------|--------------------|---------------|---------------|---------------|
|                            | 2019<br>£'000      | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'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 5) 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:

|            | 2019<br>£ | 2018<br>£ |
|------------|-----------|-----------|
| I Fishwick | 66        | 73        |
| R Wilson   | 41        | 47        |
| D Lukic    | —         | 2         |
| C Kingsman | 475       | 291       |
| R Burbage  | 20        | 16        |
| J Swaite   | 7         | 6         |

There is no ultimate controlling party.

Transactions between the Company and its subsidiaries are as follows:

### Provision of services from related parties

|                           | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|---------------------------|---------------------------|---------------------------|
| Our IT Department Limited | 46                        | 35                        |
| Atomwide Limited          | 1                         | —                         |
| Shift F7 Limited          | 5                         | —                         |
|                           | 52                        | 35                        |

### Provision of services to related parties

|                           | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|---------------------------|---------------------------|---------------------------|
| Centrix Limited           | 8                         | —                         |
| Comms Group Limited       | 3                         | —                         |
| Our IT Department Limited | 20                        | —                         |
| Shift F7 Limited          | 18                        | —                         |
|                           | 49                        | —                         |

## Notes to the financial statements continued

For the year ended 31 March 2019

### 26. Related party transactions continued

#### Amounts due to subsidiaries

|                        | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|------------------------|---------------------------|---------------------------|
| Centrix Limited        | 2,612                     | 1,168                     |
| Comms Group UK Limited | —                         | 950                       |
| Atomwide Limited       | 1,871                     | 1,201                     |
|                        | <b>4,483</b>              | <b>3,319</b>              |

#### Amounts due from subsidiaries

|                           | 31 March<br>2019<br>£'000 | 31 March<br>2018<br>£'000 |
|---------------------------|---------------------------|---------------------------|
| Comms Group Limited       | 3,124                     | —                         |
| Our IT Department Limited | 7                         | 97                        |
| Shift F7 Limited          | 537                       | —                         |
|                           | <b>3,668</b>              | <b>97</b>                 |

Intra-Group dividends of £6,357,000 were paid to AdEPT Technology Group plc from the subsidiary companies during the year (2018: £10,200,000). These dividends are included in the Company profit for the year but are eliminated upon consolidation.

### 27. Capital commitments

At 31 March 2019 there were capital commitments of £Nil (2018: £Nil).

### 28. Earnings per share

Earnings per share is calculated on the basis of a profit of £1,867,932 (2018: £3,936,054) divided by the weighted average number of shares in issue for the year of 23,701,832 (2018: 23,701,832). The diluted earnings per share is calculated on the treasury stock method and the assumption that the weighted average unapproved and EMI share options outstanding during the period are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 23,852,410 (2018 restated: 23,810,994). The March 2018 comparative has been restated applying the treasury stock method to take account only of outstanding share options which are in the money.

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, adjustment to deferred consideration and acquisition costs and excluding compensation credits from retained earnings, giving £7,052,812 (2018: £6,660,491). This is divided by the same weighted average number of shares as above.



## 28. Earnings per share continued

|  | 2019<br>£'000 | Restated<br>2018<br>£'000 |
|--|---------------|---------------------------|
| <b>Earnings for the purposes of basic and diluted earnings per share</b> |               |                           |
| Profit for the period attributable to equity holders                     | 1,867         | 3,936                     |
| Add: amortisation  | 4,568         | 3,730                     |
| Less: taxation on amortisation of purchased customer contracts           | (117)         | (121)                     |
| Less: deferred tax credit on amortisation charges                        | (669)         | (506)                     |
| Add: share option charges  | 68            | 40                        |
| Add: adjustment to deferred consideration                                | 586           | 28                        |
| Add: acquisition fees and restructuring costs                            | 600           | 229                       |
| Less: compensation credits   | —             | (755)                     |
| Add: interest unwind on loan note  | 150           | 79                        |
| Adjusted profit attributable to equity holders                           | 7,053         | 6,660                     |
| <b>Number of shares</b>  |               |                           |
| Weighted average number of shares used for earnings per share            | 23,701,832    | 23,701,832                |
| Weighted average dilutive effect of share plans                          | 150,578       | 109,162                   |
| Diluted weighted average number of shares                                | 23,852,410    | 23,810,994                |
| <b>Earnings per share</b>  |               |                           |
| Basic earnings per share   | 7.88p         | 16.61p                    |
| Diluted earnings per share   | 7.83p         | 16.53p                    |
| <b>Adjusted earnings per share</b>                                       |               |                           |
| Adjusted basic earnings per share  | 29.76p        | 28.10p                    |
| Adjusted diluted earnings per share                                      | 29.57p        | 27.97p                    |

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, adjustment to deferred consideration and acquisition costs and excluding compensation credits) by the weighted average number of ordinary shares in issue.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 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.

|  | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| <b>Loans and receivables at amortised cost</b> |                        |                          |                        |                          |
| Cash and cash equivalents                      | 7,650                  | 3,659                    | 7,127                  | 4,305                    |
| Loans and receivables                          | 7,018                  | 2,447                    | 3,955                  | 1,015                    |
|  | <b>14,668</b>          | <b>6,106</b>             | 11,082                 | 5,320                    |
| <b>Financial liabilities at amortised cost</b> |                        |                          |                        |                          |
| Liabilities at amortised cost                  | 51,863                 | 49,147                   | 40,344                 | 38,660                   |
| <b>Financial liabilities at fair value</b>     |                        |                          |                        |                          |
| Contingent consideration                       | 1,249                  | 1,249                    | 4,360                  | 4,360                    |
|  | <b>53,112</b>          | <b>50,396</b>            | 44,704                 | 43,020                   |
| <b>Amounts due for settlement</b>              |                        |                          |                        |                          |
| Within twelve months                           | 4,882                  | 2,199                    | 6,651                  | 4,967                    |
| After twelve months                            | 48,230                 | 48,197                   | 38,053                 | 38,053                   |
|  | <b>53,112</b>          | <b>50,396</b>            | 44,704                 | 43,020                   |

The Company has a five year £40m revolving credit facility agreement with Barclays Bank plc and Royal Bank of Scotland plc. The revolving credit facility bears interest at 1.85–2.9% over LIBOR on drawn funds, dependent upon the net debt to EBITDA ratchet. The facility limit reduces to £35m in June 2020, and the balance is repayable in full on the final repayment date in 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 IFRS 9 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 £5,931,884 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 £203,525 are being recognised in the interest charge in the income statement across the term of the convertible instrument. The equity component of the convertible loan is included in the share option reserve in the statement of changes in equity and statement of financial position.

#### Obligations under finance leases

As at 31 March 2019 the Group had no finance lease obligations.

#### Sensitivity analysis

At 31 March 2019 it was estimated that a movement of 1% in interest rates would impact the Group's profit before tax by approximately £0.27m.

#### 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 2019, £7,293,726 of the Group's borrowings are at a fixed rate of interest (2018: £7,293,726).

## 29. Financial instruments continued

### 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 2019 was £14,599,274 (2018: £11,081,483).

### Loans and receivables

|                           | 2019<br>Group<br>£'000 | 2019<br>Company<br>£'000 | 2018<br>Group<br>£'000 | 2018<br>Company<br>£'000 |
|---------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trade receivables         | 6,949                  | 2,439                    | 3,955                  | 1,015                    |
| Other receivables         | 69                     | 7                        | 53                     | 7                        |
| Cash and cash equivalents | 7,650                  | 3,659                    | 7,127                  | 4,305                    |
|                           | 14,668                 | 6,105                    | 11,135                 | 5,327                    |

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

|                                 | Within<br>1 year<br>£'000 | 1-2 years<br>£'000 | 2-5 years<br>£'000 | More than<br>5 years<br>£'000 |
|---------------------------------|---------------------------|--------------------|--------------------|-------------------------------|
| <b>Year ended 31 March 2019</b> |                           |                    |                    |                               |
| <b>Borrowings</b>               | —                         | —                  | 34,730             | 7,293                         |
| <b>Trade and other payables</b> | 3,780                     | —                  | —                  | —                             |
|                                 | 3,780                     | —                  | 34,730             | 7,293                         |
| <b>Year ended 31 March 2018</b> |                           |                    |                    |                               |
| Borrowings                      | —                         | —                  | 24,749             | 7,293                         |
| Trade and other payables        | 2,336                     | —                  | —                  | —                             |
|                                 | 2,336                     | —                  | 24,749             | 7,293                         |

### 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.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 30. Business combinations

On 17 August 2018 the Company acquired the entire issued share capital of Shift F7 Group Limited ('Shift F7') for an initial consideration of £5.00m in cash less net debt and tax liabilities at completion (approximately £0.65m). Further contingent deferred consideration of between £Nil and £2.90m may be payable, also in cash, dependent upon the performance of Shift F7 post-acquisition.

The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The fair value of contingent deferred consideration has been determined by reference to the expected growth rate for the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The contingent consideration liability of £0.37m has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.03m being included within finance costs over the deferred consideration period as an interest charge. At 31 March 2019 the estimated deferred consideration was £Nil; a credit of £0.39m has been recognised in the statement of total comprehensive income in respect of the movement on the deferred consideration liability. Total consideration is anticipated to be £4.35m (including acquired debts and tax liabilities).

Shift F7, founded in 1995, is a highly accredited IT services provider with over 20 years' experience, offering highly specialised IT support services and technology solutions to more than 200 commercial mid-market customers.

Shift F7 has security accredited dedicated hosted platform environments in London Docklands and Heathrow. Key suppliers include Citrix, Microsoft, HP, Cisco, Ericsson-LG and VMware.

All services provided by Shift F7 are supported by a highly experienced team of IT professionals based at Shift F7's premises in Dorking, Surrey, which have been retained post-acquisition. The senior management team responsible for the strategic direction, technical development and the day-to-day operations of Shift F7 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<br>£'000 | Fair value<br>£'000 |
|--------------------------------|--------------------|---------------------|
| Intangible assets              | 2,717              | 5,159               |
| Property, plant and equipment  | 355                | 355                 |
| Inventories                    | 2                  | 2                   |
| Trade and other receivables    | 468                | 468                 |
| Cash and cash equivalents      | 269                | 269                 |
| Trade and other payables       | (1,449)            | (1,449)             |
| Income tax                     | (35)               | (35)                |
| Deferred tax                   | (51)               | (928)               |
| <b>Net assets</b>              | <b>2,276</b>       | <b>3,841</b>        |
| Cash                           |                    | (4,347)             |
| Contingent cash consideration  |                    | (370)               |
| Fair value total consideration |                    | (4,717)             |
| <b>Goodwill</b>                |                    | <b>876</b>          |

The trade and other receivables are all considered recoverable.

Shift F7 contributed revenue and profit after tax of £2.47m and £0.20m respectively for the year ended 31 March 2019 and represents an eight month contribution. On a full year basis, Shift F7 would have contributed revenue and profit after tax of £3.96m and £0.29m respectively. Acquisition related costs of £0.35m have been recognised as an expense in the statement of comprehensive income for the year ended 31 March 2019.

On 17 November 2018 the Company acquired the entire issued share capital of ETS Communications Holdings Limited ('ETS') for an initial consideration of £1.74m net of debts on the balance sheet at the date of acquisition (approximately £0.70m), payable in cash. Further contingent consideration of between £Nil and £1.75m may be payable, also in cash, dependent upon the performance of ETS post-acquisition.

### 30. Business combinations continued

The contingent deferred consideration will be determined by reference to the forecast gross margin of the acquired business for months one to twelve post-acquisition and applying the contingent deferred consideration matrix as specified in the share purchase agreement. The fair value of the contingent deferred consideration has been determined by reference to the forecast gross margin of the acquired business for months one to twelve post-acquisition and applying the contingent deferred consideration matrix as specified in the share purchase agreement. The contingent consideration liability of £1.01m has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.08m being included within the finance costs over the deferred consideration period as an interest charge. At 31 March 2019 the estimated deferred consideration was £1.25m; a debit of £0.23m 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 £3.69m (including acquired debts and tax liabilities).

ETS, based in Wakefield, specialises in Avaya IP Office and Ericsson-LG and supplies hosted voice in over 200 GP surgeries. One of the three vendors, which is responsible for the strategic direction and day-to-day operations of ETS, has been retained within the business post-acquisition.

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

|                                | Book cost<br>£'000 | Fair value<br>£'000 |
|--------------------------------|--------------------|---------------------|
| Intangible assets              | 870                | 3,678               |
| Property, plant and equipment  | 93                 | 93                  |
| Inventories                    | 104                | 21                  |
| Trade and other receivables    | 158                | 127                 |
| Cash and cash equivalents      | (48)               | (48)                |
| Trade and other payables       | (1,042)            | (1,042)             |
| Income tax                     | (90)               | (90)                |
| Deferred tax                   | 18                 | (599)               |
| <b>Net assets</b>              | <b>63</b>          | <b>2,140</b>        |
| Cash                           |                    | (1,739)             |
| Contingent cash consideration  |                    | (1,018)             |
| Fair value total consideration |                    | (2,757)             |
| <b>Goodwill</b>                |                    | <b>617</b>          |

The trade and other receivables are all considered recoverable.

ETS contributed revenue and profit after tax of £1.14m and £0.12m respectively for the year ended 31 March 2019 and represents a five month contribution. On a full year basis, ETS would have contributed revenue and profit after tax of £2.7m and £0.25m respectively. Acquisition related costs of £0.15m have been recognised as an expense in the statement of comprehensive income for the year ended 31 March 2019.

#### Contingent consideration obligations

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 outcome of the amount of contingent deferred consideration is uncertain; the range of contingent consideration in the current period was £Nil to £4.65m and could have a material impact on the financial statements.

## Notes to the financial statements continued

For the year ended 31 March 2019

### 30. Business combinations continued

#### Contingent consideration obligations continued

At 31 March 2019 a financial liability of £1,249,205 has been recognised in respect of the fair value of the contingent consideration due in respect of the acquisitions of:

|                           | Fair value as at       |                        | Fair value hierarchy | Valuation technique(s) and key input(s)   | Significant unobservable input(s)  | Relationship of unobservable inputs to fair value   |
|---------------------------|------------------------|------------------------|----------------------|---|--|---|
|                           | 31 March 2018<br>£'000 | 31 March 2019<br>£'000 |                      |   |  |   |
| Our IT Department Limited | 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.<br>The higher the gross margin the higher the earn out. |
| Shift F7 Limited          | —                      | —                      | 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.<br>The higher the gross margin the higher the earn out. |
| ETS Limited               | —                      | 1,249                  | 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.<br>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 2019 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 8 to these financial statements.

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

|                                       | Atomwide Limited<br>£'000 | Shift F7 Group Limited<br>£'000 | ETS Limited<br>£'000 | Our IT Department Limited<br>£'000 | Total<br>£'000 |
|---------------------------------------|---------------------------|---------------------------------|----------------------|------------------------------------|----------------|
| At 1 April 2018                       | 706                       | —                               | —                    | 3,654                              | 4,360          |
| Additions                             | —                         | 370                             | 1,018                | —                                  | 1,388          |
| Adjustment to deferred consideration  | 775                       | (400)                           | 211                  | —                                  | 586            |
| Discounting of deferred consideration | 32                        | 30                              | 20                   | —                                  | 82             |
| Settled in cash                       | (1,513)                   | —                               | —                    | (3,654)                            | (5,167)        |
| <b>At 31 March 2019</b>               | <b>—</b>                  | <b>—</b>                        | <b>1,249</b>         | <b>—</b>                           | <b>1,249</b>   |

The earn out period for Shift F7 Limited and ETS Limited had not ended at 31 March 2019. The earn out for Our IT Department Limited was paid on 5 April 2018 and the earn out for Atomwide was paid on 31 October 2018.

During the year total cash consideration of £11,052,465 was paid in respect of acquisitions, £5,167,615 was in respect of the settlement of deferred consideration and £5,884,850 was in respect of initial consideration (net of cash acquired).

### 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     |
| Shift F7 Limited                    | England & Wales | One Fleet Place, London EC4M 7WS | Ordinary       | 100            | Trading     |
| Shift F7 Group Limited              | England & Wales | One Fleet Place, London EC4M 7WS | Ordinary       | 100            | Dormant     |
| ETS Communications Limited          | England & Wales | One Fleet Place, London EC4M 7WS | Ordinary       | 100            | Trading     |
| ETS Communications Holdings Limited | England & Wales | One Fleet Place, London EC4M 7WS | Ordinary       | 100            | Dormant     |
| 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

#### Bank facility extension

On 25 April 2019 the Company signed a £5m extension to its existing £35m five year revolving credit facility agreement, enlarging the total debt facility to £40m. The incremental £5m tranche of the revolving credit facility is available in the period through to 30 June 2020. The remaining £35m of the revolving credit facility remains available for the five year term to 31 January 2022. The enlarged facility is provided by Barclays Bank Plc ('Barclays') and The Royal Bank of Scotland plc (RBS) on an equal basis. The facility will be used by AdEPT to fund acquisition of businesses that extend the AdEPT product set and, by being part of the AdEPT Group, will benefit from economies of scale. The commercial terms of the enlarged facility remain the same as the existing facility, the details of which are included in Notes 21 and 29.

#### Acquisition of Advanced Computer Systems Group Limited

On 26 April 2019 the Company acquired the entire issued share capital of Advanced Computers Systems Group Limited and its trading subsidiary Advanced Computer Systems Limited ('ACS') (together referred to as 'ACS Group'), a well-established UK-based specialist provider of IT services focused on the education sector.

ACS Group, founded in 1999, is an independent IT service provider based in Doncaster with 20 years' experience. ACS Group is focused on providing IT services and has a strong public sector presence, including managing and supporting the IT function of approximately 200 schools and academy trusts.

Initial consideration of £5.24m less the net debt of ACS Group at 31 March 2019 was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2019. Further contingent deferred consideration of up to £2.26m may be payable in cash dependent upon the trading performance of ACS in the twelve month period ended 31 March 2020. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The fair value of the assets and the contingent consideration liability have not yet been identified at the date of these interim results as the completion balance sheet was not available.

The last filed statutory accounts of ACS Group for the year ended 31 December 2018 reported turnover, operating profit and profit before tax of £5.46m, £0.91m and £0.85m respectively. There was no capital expenditure in the year ended 31 December 2018. Net and gross assets at that date were £0.19m and £1.50m respectively. Acquisition related costs will be recognised as an expense in the statement of comprehensive income for the year ending 31 March 2020.

## Company information

### Directors

Roger Wilson  
Dusko Lukic  
Christopher Kingsman (resigned 5 February 2019)  
Ian Fishwick  
Richard Bligh (appointed 27 June 2019)  
John Swaite  
Richard Burbage  
Phil Race (appointed 1 January 2019)

### Secretary

Dentons Secretaries Limited

### Company number

4682431

### Registered office

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### Contact details

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W: [www.adept.co.uk](http://www.adept.co.uk)

### Auditor

#### **Crowe U.K. LLP**

Chartered accountants and registered auditor  
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### Bankers

#### **Barclays Bank plc**

1 Churchill Place  
London E14 5HP

#### **RBS plc**

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London EC2M 4AA

### Nominated adviser and broker

#### **Cantor Fitzgerald Europe Limited**

1 Churchill Place  
London E14 5RB

### Solicitors

#### **CrippsPG LLP**

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Tunbridge Wells  
Kent TN4 8AS

### Registrars

#### **Computershare Investor Services plc**

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The Pavilions  
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Bristol BS99 6ZY



# Glossary

|   |  |
|---|--|
| <b>21CN</b>                                 | The 21st Century Network programme is BT's network transformation project to move its telephone network from the PSTN to an IP system  |
| <b>ADSL</b>                                 | 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                              |
| <b>CCS framework</b>                        | Crown Commercial Service framework   |
| <b>Churn</b>                                | The turnover rate of revenue for customers either joining or leaving a service over a particular time  |
| <b>The Company</b>                          | AdEPT Technology Group plc   |
| <b>Companies Act</b>                        | Companies Act 2006   |
| <b>DSL</b>                                  | Digital subscriber line services are a family of wide area technologies that are used to transmit digital data over telephone lines  |
| <b>Underlying EBITDA</b>                    | Earnings before acquisition costs, share options, interest, taxation, depreciation and amortisation  |
| <b>ECTA</b>                                 | The European Competitive Telecommunications Association  |
| <b>The Group</b>                            | The Company, its subsidiaries and entities which are joint ventures  |
| <b>IP</b>                                   | 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 |
| <b>IP telephony</b>                         | 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  |
| <b>ISDN</b>                                 | 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   |
| <b>LIBOR</b>                                | 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   |
| <b>MPLS networks</b>                        | Multi-protocol 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   |
| <b>Operating profit</b>                     | Profit before finance costs and taxation   |
| <b>Optical Spectrum Services (OSA/OSEA)</b> | Secure, permanently connected, high speed data circuits that use dense wavelength division multi-plexing (DWDM) technology over optical fibre links  |
| <b>PSTN</b>                                 | The public switched telephone network is the world's collection of interconnected voice-oriented public telephone networks, both commercial and government owned   |
| <b>Single analogue line</b>                 | The most common form of telephone line, used to service most homes and small businesses  |
| <b>SIP</b>                                  | Session initiation protocol is a signalling protocol for initiating and controlling users' multi-media communication sessions in an IP-based network   |
| <b>Telephony Service Framework (RM1045)</b> | A multi-supplier pan-government framework for the purchase of telephony services   |
| <b>Tier-1 suppliers</b>                     | The most important members of a supply chain, supplying components directly to the original equipment manufacturer that set up the chain   |
| <b>Corporate Governance Code</b>            | Corporate Governance Code published by Quoted Companies Alliance (QCA)   |
| <b>VoIP</b>                                 | Voice over internet protocol   |



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