# Claranet Group Limited

Report and Financial Statements

Year Ended

30 June 2013

Company Number 04037420

# Claranet Group Limited

**Report and financial statements**
**for the year ended 30 June 2013**

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**Directors**

C Nasser
M Robert
N Massard

**Secretary and registered office**

M Robert, 21 Southampton Row, London, WC1B 5HA

**Company number**

04037420

**Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU

# Claranet Group Limited

## Report of the directors
## for the year ended 30 June 2013

The directors present their report together with the audited financial statements for the year ended 30 June 2013.

### Results and dividends

The acquisition in the UK of Star during November 2012 and in France of Typhon during December 2012 has driven the increase in revenue for the year to £92.8m (2012 - £59.6m) and operating profit for the year to £2.6m (2012 - £2.3m).

Operating profit is stated after £1.5m of restructuring costs for the integration of the acquisitions with existing businesses, the benefits of which will be seen in future years.

Gross margin for 2013 was down slightly at 56% (2012 - 57%).

The interest charge for the year is higher as a result of the increase in borrowings which were used to fund the acquisitions and the write off of certain arrangement fees. As a consequence, the loss for the year before taxation was £3.2m (2012 - £1.7m profit).

The loss after tax for the year is £3.4m (2012 - £2.2m profit).

The directors do not recommend the payment of a dividend (2012 - £Nil).

### Principal activity, business review and future developments

At year end Claranet Group Limited employed approximately 617 staff and is comprised of operations in the UK, France, Germany and Spain. The wider Claranet group of companies also has operations in the Netherlands and Portugal and has total revenues of £103m (2012 - £70m), employing the equivalent of 691 full-time people in 16 offices and 20 data centres.

The Group's principal activity is providing managed services, which includes:

Application services
- Managed website applications
- Managed email application
- Database management

Network services
- Internet connectivity
- Private network services

Hosting services
- Infrastructure as a service (IaaS)
- Managed hosting
- Colocation hosting

Communication services
- Voice services
- Hosting IP telephony
- Collaboration services

**Principal activity, business review and future developments** *(continued)*

During financial year 2013, the group secured a number of important new, renewal and extension contracts, including:

**In the UK:** River Island Clothing, Action for Children, Lyons Davidson, De Vere Venues, Advanced Legal, Johnsons Apparelmaster, Foxtons, Alpha Plus Group IRIS Group and Lidl UK.
**In France:** Veolia, Airbus and Total
**In Germany:** Aktion Mensch e.v., N24 Gesellschaft für Nachrichten und Zeitgeschehen mbH and OCLC GmbH (Online Computer Libary Center),

Some of our major customers have requested to remain anonymous, but the Group continues to gain prestigious clients and building on already strong relationships.

Total contracted future revenue of the wider Group as of 30 June 2013 was in excess of £167m (2012: £84m).

Claranet continues to invest in the continual improvement of its people, processes and systems and has the following accreditations: ISO:9001:2008, ISO 27001:2005, ISO20000, Payment Card Industry Data Security Standard (PCI/DSS), Microsoft Gold Partner and VMWare Premier Service Provider.

**Acquisition of Star**

On 22 November 2012, the company completed the acquisition of the entire share capital of STH Limited and its operating subsidiary Star Technology Services Limited ("Star"). Star is a UK based business that provides managed network and hosting services to SME and enterprise businesses. The total consideration paid was £50.5m satisfied by a combination of cash and vendor loan notes.

Star was founded a few months before Claranet, in 1995. It has grown largely organically to a team of 240 with £50m in annual revenues today. Claranet and Star services overlap but also complement each other, and have many shared goals and ambitions. It makes us a good fit technically and culturally.

Since the acquisition, the UK management team have been implementing a plan to bring the two companies together into a single operation. Teams have been integrated, and systems, processes and product catalogues are being standardised.

**Acquisition of Typhon**

On 14 December 2012 Claranet SAS acquired the entire share capital of ALJVD SAS and its subsidiaries Typhon SAS and Typhon Inc ("Typhon") for £2.6m. This was a French hosting company based in Paris with annual revenue of circa £2m. The businesses have been fully integrated into Claranet France.

**Financial risk management objectives and policies**

The group uses financial instruments such as cash, borrowings, receivables and payables in order to raise finance for the group's operations. The existence of these instruments exposes the company to financial risks which are detailed below:

**Liquidity risk**

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by overdraft facilities of £2.0m and an RCF facility to provide working capital of £6.0m.

**Financial risk management objectives and policies** (continued)

### Interest risk

The company is exposed to interest rate fluctuations on its borrowings. The group's debt consists of a £32.5m senior debt facility used to fund the acquisitions during the year that expires in November 2016 and a £6m revolving credit facility, (£3.5m drawn) held with the Royal Bank of Scotland that expires in November 2015. These facilities were drawn down in November. Interest is payable at LIBOR plus an agreed margin subject to a minimum LIBOR rate of 1.5%.

On 18 January 2013 the Group purchased a 2% LIBOR interest rate cap on £25m of borrowings for the period from May 2013 until November 2014 to reduce the impact on the group should interest rates increase.

Net senior debt leverage for the group remains low and within agreed banking limits. Management do not consider either the availability of future debt nor probable interest rate movements to be a significant risk to the business.

### Credit risk

The principal credit risk for the group arises from its trade receivables. In order to manage credit risk the country directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controllers on a regular basis in conjunction with debt ageing and collection history.

As at 30 June 2013, there were no material credit risk balances that were not provided for.

### Key performance indicators

The directors of the company continue to review and manage both financial and non financial KPIs on a regular basis. These KPIs include sales pipeline, order intake, cancellations, work in progress, gross margin (2013: 56%, 2012: 57%), EBITDA (2013: £10.9m, 2012: £6.1m) and the total contract value of the customer base.

### Employee involvement

Information is provided to all employees regularly by means of on-going management communication channels using written material, face-to-face meetings, regular postings to an intranet and video presentations.

Regular face-to-face communications with employees take place and employees are made aware of their contribution through individual bi-annual performance appraisals.

Claranet has been working with a charity partner, The Prince's Trust, and has supported them through a number of team building and fundraising activities. Claranet raised over £20k for The Prince's Trust in 2013.

### Supplier Payment Policy

Settlement of trade and other payables is in accordance with the terms of trade established with our suppliers with each of the companies in the group. The Group's trade payable days at 30 June 2013 were 68 days (2012 - 70 days).

### Disabled persons

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

**Directors**

The directors of the company during the year were:

C Nasser
M Robert
N Massard (appointed 23 May 2013)

**Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

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

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

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

**Auditors**

All of the directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting in accordance with section 485 of the Companies Act 2006.

**On behalf of the Board**

M Robert
**Director**

Date 23/12/13

### TO THE MEMBERS OF CLARANET GROUP LIMITED

We have audited the financial statements of Claranet Group Limited for the year ended 30 June 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditors

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

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2013 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

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

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

*Julian Frost*
*For and on behalf of BDO LLP, statutory auditor*
*London*
*United Kingdom*

Date 23/12/13

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

# Claranet Group Limited

## Consolidated Income Statement
## for the year ended 30 June 2013

| | Note | 2013<br>£000's | 2012<br>£000's |
|---|---|---|---|
| **Revenue** | 4 | **92,839** | 59,642 |
| Cost of sales | | **(41,181)** | (25,627) |
| **Gross profit** | | **51,658** | 34,015 |
| Administrative expenses | 5 | **(49,052)** | (31,719) |
| **Operating profit** | | **2,606** | 2,296 |
| *Analysed as:* | | | |
| Operating profit before exceptional items | | **4,146** | 2,296 |
| Exceptional items | 6 | **(1,540)** | - |
| Finance income | 11 | **24** | 16 |
| Finance expense | 12 | **(5,865)** | (643) |
| **(Loss)/profit before tax** | | **(3,235)** | 1,669 |
| Income tax (expense)/income | 13 | **(199)** | 574 |
| **(Loss)/profit for the year from continuing operations** | | **(3,434)** | 2,243 |

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Consolidated Statement of Comprehensive Income
for the year ended 30 June 2013

| | Note | 2013 £000's | 2012 £000's |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(3,434)** | 2,243 |
| **Other comprehensive income** | | | |
| Actuarial loss on defined benefit pension scheme | 9 | **(79)** | (132) |
| Exchange differences | | **239** | (218) |
| **Total other comprehensive income/(loss)** | | **160** | (350) |
| **Total comprehensive (loss)/income for the year** | | **(3,274)** | 1,893 |

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Consolidated Statement of Financial Position
## at 30 June 2013

| Company Number 04037420 | Note | 2013 £000's | 2013 £000's | 2012 £000's | 2012 £000's |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non current assets** | | | | | |
| Property, plant and equipment | 14 | **16,552** | | 7,291 | |
| Intangible assets | 15 | **65,226** | | 11,091 | |
| Other receivables | 17 | **3,580** | | 3,210 | |
| Deferred tax asset | 21 | **5,035** | | 3,693 | |
| | | | **90,393** | | 25,285 |
| **Current assets** | | | | | |
| Trade and other receivables | 17 | **13,342** | | 7,797 | |
| Cash and cash equivalents | 27 | **5,199** | | 2,970 | |
| | | | **18,541** | | 10,767 |
| **Total assets** | | | **108,934** | | 36,052 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | **(18,357)** | | (11,496) | |
| Loans and borrowings | 18 | **(5,759)** | | (2,406) | |
| | | | **(24,116)** | | (13,902) |
| **Non current liabilities** | | | | | |
| Other liabilities | 18 | **(23,992)** | | (4,915) | |
| Loans and borrowings | 18 | **(49,929)** | | (10,014) | |
| Deferred tax liability | 21 | **(3,963)** | | - | |
| Provisions | 20 | **(643)** | | (239) | |
| | | | **(78,527)** | | (15,168) |
| Deferred revenue | | | **(10,007)** | | (7,424) |
| **Total liabilities** | | | **(112,650)** | | (36,494) |
| **Net liabilities** | | | **(3,716)** | | (442) |
| **Capital and reserves** | | | | | |
| Share capital | 23 | | **250** | | 250 |
| Retained (deficit) / earnings | | | **(2,498)** | | 1,015 |
| Foreign currency translation reserve | | | **(1,468)** | | (1,707) |
| **Total deficit** | | | **(3,716)** | | (442) |

The financial statements were approved by the Board of Directors and authorised for issue on 23 December 2013

Signed on behalf of the Board of Directors

M F Robert

M Robert
**Director**

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Company Statement of Financial Position
**at 30 June 2013**

| **Company Number 04037420** | **Note** | **2013 £000's** | **2013 £000's** | **2012 £000's** | **2012 £000's** |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non Current Assets** | | | | | |
| Property, Plant and Equipment | | 1 | | 2 | |
| Investments | 16 | 1,470 | | 1,470 | |
| Other receivables | 17 | 56,429 | | 9,230 | |
| | | | 57,900 | | 10,702 |
| **Current Assets** | | | | | |
| Trade and Other Receivables | 17 | - | | 6 | |
| Cash and Cash Equivalents | | 233 | | 280 | |
| | | | 233 | | 286 |
| **Total Assets** | | | 58,133 | | 10,988 |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and Other Payables | 18 | (504) | | (64) | |
| | | | (504) | | (64) |
| **Non Current Liabilities** | | | | | |
| Other Liabilities | 18 | (44,633) | | (19,039) | |
| Loans and Borrowings | 18 | (33,977) | | (7,497) | |
| | | | (78,610) | | (26,536) |
| **Total Liabilities** | | | (79,114) | | (26,600) |
| **Net Liabilities** | | | (20,981) | | (15,612) |
| **Capital and Reserves** | | | | | |
| Share Capital | 23 | | 250 | | 250 |
| Retained (Deficit) / Earnings | | | (21,231) | | (15,862) |
| **Total Deficit** | | | (20,981) | | (15,612) |

The financial statements were approved by the Board of Directors and authorised for issue on 23 December 2013

Signed on behalf of the Board of Directors

M Robert
**Director**

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Consolidated Statement of Cash Flows
## for the year ended 30 June 2013

| | Note | 2013 £000's | 2013 £000's | 2012 £000's | 2012 £000's |
|---|---|---|---|---|---|
| **Cash Flows from operating activities** | | | | | |
| (Loss) / profit for the year | | (3,434) | | 2,243 | |
| Adjustments for: | | | | | |
| Depreciation and amortisation | | 8,324 | | 3,949 | |
| Finance income | 11 | (24) | | (16) | |
| Finance expense | 12 | 5,865 | | 643 | |
| Taxation | 13 | 199 | | (574) | |
| (Loss) / profit on sale of property, plant and equipment | | (101) | | (3) | |
| | | 10,829 | | 6,242 | |
| (Increase)/decrease in trade and other receivables | | (788) | | 955 | |
| (Decrease)/increase in trade and other payables | | (1,646) | | 536 | |
| Increase in provisions | | 404 | | 9 | |
| **Cash generated from operations** | | 8,799 | | 7,742 | |
| Taxation paid | | (637) | | (12) | |
| **Net cash from operating activities** | | | 8,162 | | 7,730 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property plant and equipment | | (48) | | (794) | |
| Purchase of intangible assets | | (1,110) | | (793) | |
| Proceeds on disposal of property, plant and equipment | | 135 | | | |
| Cash outflow on acquisition of subsidiaries (net of cash acquired) | 28 | (40,247) | | - | |
| Interest received | | 24 | | 16 | |
| **Net cash used in investing activities** | | | (41,246) | | (1,571) |
| **Cash flows from financing activities** | | | | | |
| Repayment of long term borrowings | | (7,497) | | (7,431) | |
| Drawdown of Long Term Borrowings | | 33,349 | | 7,497 | |
| Interest Paid | | (2,443) | | (638) | |
| Payment of finance lease liabilities | | (3,468) | | (3,052) | |
| Proceeds from other loans | | 220 | | - | |
| Proceeds from/ (Repayment to) parent company | | 15,152 | | (888) | |
| **Net cash generated from /( used in) financing activities** | | | 35,313 | | (4,512) |
| **Net Increase in Cash and Cash Equivalents** | | | 2,229 | | 1,647 |
| Cash and Cash Equivalents at beginning of year | | | 2,970 | | 1,364 |
| Effects of exchange rate changes | | | - | | (41) |
| **Cash and Cash Equivalents at end of year** | | | 5,199 | | 2,970 |

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Company Statement of Cash Flows
## for the year ended 30 June 2013

| | 2013 £000's | 2013 £000's | 2012 £000's | 2012 £000's |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss for the year | **(5,369)** | | (1,795) | |
| Adjustments for: | | | | |
| Depreciation and amortisation | **1** | | 1 | |
| Interest expense | **5,113** | | 377 | |
| | **(255)** | | (1,417) | |
| (Decrease)/increase in trade and other receivables | **(26)** | | 167 | |
| Increase/ (decrease) in trade and other payables | **456** | | (100) | |
| **Cash generated from /(used in) operations** | **175** | | (1,350) | |
| Tax paid | **-** | | - | |
| **Net cash from operating activities** | | **175** | | (1,350) |
| **Cash flows from financing activities** | | | | |
| Repayment of long term borrowings | **(7,497)** | | (7,431) | |
| Drawdown of long term borrowings | **33,261** | | 7,497 | |
| Interest paid | **(1,858)** | | (377) | |
| (Repayment to)/proceeds from subsidiary undertaking | **(39,280)** | | 2,453 | |
| Proceeds from/(repayment to) parent company | **15,152** | | (888) | |
| **Net cash generated from financing activities** | | **(222)** | | 1,254 |
| Net decrease in cash and cash equivalents | | **(47)** | | (96) |
| Cash and cash equivalents at beginning of year | | **280** | | 376 |
| **Cash and cash equivalents at end of year** | | **233** | | 280 |

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Consolidated Statement of Changes in Equity
## for the year ended 30 June 2013

| | Share capital | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|
| | £000's | £000's | £000's | £000's |
| Balance as at 1 July 2011 | 250 | (1,489) | (1,096) | (2,335) |
| Profit for the year | - | - | 2,243 | 2,243 |
| Other comprehensive income | - | (218) | (132) | (350) |
| Total comprehensive income | - | (218) | 2,111 | 1,893 |
| **Balance as at 30 June 2012** | 250 | (1,707) | 1,015 | (442) |
| Balance as at 1 July 2012 | 250 | (1,707) | 1,015 | (442) |
| Loss for the year | - | - | (3,434) | (3,434) |
| Other comprehensive income | - | 239 | (79) | 160 |
| Total comprehensive income | - | 239 | (3,513) | (3,274) |
| **Balance as at 30 June 2013** | **250** | **(1,468)** | **(2,498)** | **(3,716)** |

The nature of each reserve is disclosed in note 24.

The notes on pages 15 to 50 form part of these financial statements.

# Claranet Group Limited

## Company Statement of Changes in Equity
## for the year ended 30 June 2013

| | Share capital £000's | Retained earnings £000's | Total equity £000's |
|---|---|---|---|
| Balance as at 1 July 2011 | 250 | (14,067) | (13,817) |
| Total comprehensive loss for the year | - | (1,795) | (1,795) |
| **Balance as at 30 June 2012** | 250 | (15,862) | (15,612) |
| Balance as at 1 July 2012 | 250 | (15,862) | (15,612) |
| Total comprehensive loss in the year | - | (5,369) | (5,369) |
| **Balance as at 30 June 2013** | **250** | **(21,231)** | **(20,981)** |

The nature of each reserve is disclosed in note 24.

The notes on pages 15 to 50 form part of these financial statements.

## 1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented.

**General Information**

The financial statements as at and for the year ended 30 June 2013 are those of Claranet Group Limited (the "Company", the "Parent") and the consolidated financial statements are of the Company and its subsidiaries (see note 16) (together, the "Group"). The Company is a limited liability company incorporated and domiciled in the United Kingdom.

**Basis of Preparation**

The financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards ('IFRS'), International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group and Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the Financial Statements and their effect are disclosed in Note 2.

**Changes in Accounting Policies**

*a) New standards, amendments to published standards and interpretations to existing standards effective from 1 July 2012.*

No new standards, amendments to published standards or interpretations of existing standards effective from 1 July 2012 had a material impact on the Reporting Entity's Financial Statements.

*b) Standards and interpretations issued but not yet effective*

The following standards, interpretations and amendments, which have not been adopted in these financial statements, have been issued but are not yet effective and may have a material impact on the Group's future financial statements:

- IFRS 9 Financial Instruments (Issued 12 November 2009, with a mandatory adoption date to be agreed and is available for early adoption) - this standard replaces IAS 39 and specifies how an entity should classify and measure financial assets, and as such may affect the Group's accounting for its financial assets. However, the Group is yet to assess its full impact.

- IFRS 13 Fair Value Measurement (Issued 12 May 2011, applicable from January 2013 and is available for early adoption) - this standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies, except in some specified cases (e.g. share-based payments) when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The directors of the Company do not anticipate that there will be a significant impact on the Group's consolidated financial statements.

## 1 Accounting policies *(continued)*

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Issued 16 December 2011, applicable from January 2013 and is available for early adoption) – this amendment introduces disclosures intended to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are either off-set as a result of the application of the requirements of IAS 32.42 or that are subject to an enforceable master netting arrangement or similar agreement, which is outside of the scope of that paragraph. IAS 32. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements.

- IFRS 12 - Disclosure of Interests in Other Entities (Issued 12 May 2011, applicable from January 2013 and is available for early adoption) - This includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements.

- IAS 32 – Offsetting Financial Assets and Financial Liabilities (Issued 16 December 2011, applicable from January 2014 and is available for early adoption) - This Amendment to IAS 32 seeks to clarify rather than to change the off-setting requirements previously set out in IAS 32. The changes clarify: the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements.

- IFRS 10 - Consolidated Financial Statements (Issued 12 May 2011, applicable from January 2013 and is available for early adoption) - establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements.

- IAS 19 - Employee Benefits (Issued 16 June 2011, applicable from January 2013 and is available for early adoption) - The main changes introduced by the amendment revolve around the accounting for defined benefit pension schemes. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements.

- IAS 27 Separate Financial Statements (Issued 12 May 2011, applicable from January 2013 and is available for early adoption) – sets out the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The directors of the Company do not anticipate that there will be a material impact on the Group's consolidated financial statements

None of the other new standards, interpretations and amendments which are effective for periods beginning after 1 July 2012, and which have not been adopted early, will have a material impact on the financial statements.

### *Basis of Consolidation*

The consolidated financial statements incorporate the results of Claranet Group Limited and its subsidiary undertakings as at 30 June 2013 using the acquisition method of accounting.

## 1 Accounting policies *(continued)*

***Business Combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus
- the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

***Going Concern***

In assessing whether the going concern basis is appropriate, the directors take into account all of the available information about the foreseeable future, which is at least, but not limited to, 12 months from the date of signing these financial statements.

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons:

- The group is forecast to be profitable for 2014/15, as it benefits from the integration of Star and Typhon with existing business that took place during 2013 at a cost of £1.5m.
- The group had a positive cash balance of £5.2m as at 30 June 2013 (£3.0m – 2012) and is forecasting strong positive operating cash flow forecast for 2014/15.
- The current banking facilities were renewed in November 2012 – £32.5m funding for 4 years. In addition, the group was provided with £16.3m funding from its parent on a 5 year term.

The directors continue to monitor the group's funding strategy and have prepared detailed forecasts for future years to 2016. These forecasts underpin the going concern basis for the group.

At the date of approval of these financial statements the Directors believe that the group will continue to operate successfully for the foreseeable future and be able to meet its liabilities as and when they fall due.

***Revenue***

Revenue, which is stated net of value added tax, represents sales from products and services provided to third parties. Revenue for products recognised when the significant risks and rewards of ownership have transferred to the buyer and it is probable that the Group will receive consideration. Service revenue is recognised when the service has been provided and accepted by third parties. Revenue from support agreements is recognised on a time apportionment basis.

The element of invoices relating to future periods is deferred and released to the Income Statement over the relevant period.

The revenue is wholly attributable to the principal activity of the group. The UK business made the largest contribution to the turnover of the consolidated group in both 2012 and 2013.

## 1 Accounting policies *(continued)*

***Intangible Assets and Goodwill***

*Goodwill*

Goodwill arising on acquisition of subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. The carrying value of the goodwill is tested for impairment annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

*Internally-generated intangible assets - Research and Development*

Research expenditure is expensed to the Statement of Comprehensive Income in the year in which it is incurred. Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically and commercially feasible to develop the asset for future economic benefit;
- adequate resources are available to maintain and complete the development;
- there is the intention to complete and develop the asset for future economic benefit;
- the Company is able to use the asset;
- use of the asset will generate future economic benefit; and
- expenditure on the development of the asset can be measured reliably.

Capitalised development costs are amortised over the periods the Company expects to benefit from using the products developed, being between 3-5 years depending on the future life of the asset. The amortisation expense is included within administrative expenses in the Statement of Comprehensive Income.

*Intangible assets acquired separately - Software*

Intangible assets that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives at the following rate.

| | | |
|---|---|---|
| Software | - | 20% - 33⅓% straight line |

*Intangible assets acquired in a business combination - Customer Relationships & Brands*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

| | | |
|---|---|---|
| Customer relationships | - | 5% - 10% straight line |
| Brands | - | Up to 20% straight line |

## 1 Accounting policies *(continued)*

***Property, Plant and Equipment***

Property plant and equipment are initially measured at cost.

Depreciation is applied to all items of property, plant and equipment so as to write down the cost less estimated residual value by equal annual instalments over their expected useful lives. The rates generally applicable are:

| | | |
|---|---|---|
| Network and computer equipment | - | 20% - 33⅓% straight line |
| Office equipment | - | 20% straight line |
| Fixtures and fittings | - | 33⅓% straight line |
| Motor vehicles | - | 20% straight line |

***Investments***

Fixed asset investments are shown at cost less provision for impairment.

***Impairment of Assets***

For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). The recoverable amount of the CGU to which the goodwill relates is tested annually for impairment, or when an event or change in circumstance may indicate impairment. The carrying value of property, plant and equipment and intangible assets, other than goodwill, are reviewed for impairment only when events indicate that the carrying value may be impaired.

The impairment test will estimate the recoverable amount of the CGU to determine the extent of any impairment loss, if any. The recoverable amount is the higher of the fair value (less costs to sell) and the value in use. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

The value in use of the CGU is calculated using estimated future cash flows, discounted to their present value using a pre tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU (which have not already been included in the cash flow estimate).

***Financial Instruments***

Financial assets and liabilities are recognised on the Statement of Financial Position when the Company becomes party to the contractual terms of the financial instrument.

*Financial Assets - Loans and Receivables*

*Cash and Cash Equivalents*
Cash and cash equivalents includes cash at the bank. Bank overdrafts are shown within current liabilities on the Statement of Financial Position.

*Trade and Other Receivables*
Trade and other receivables do not carry interest and are stated at fair value on initial recognition, and then subsequently at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. When there is objective evidence that the Company will be unable to collect all of the amounts due, an impairment provision will be recognised. For disclosure purposes, the fair values of trade and other receivables are estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. As trade & other receivables are short term in nature as at reporting date, the carrying value is considered to be a reasonable approximation of fair value.

## 1 Accounting policies *(continued)*

***Financial Instruments*** *(continued)*

*Financial Liabilities - held at amortised cost*

*Trade and Other Payables*
Trade and other payables are not interest bearing and are stated at their fair value on initial recognition, and then subsequently at amortised cost. For disclosure purposes, the fair values of trade and other payables are estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. As trade & other payables are short term in nature as at reporting date, the carrying value is considered to be a reasonable approximation of fair value.

*Loans & Borrowings*
Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. For disclosure purposes, the fair value of loans and borrowings is calculated on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

*Share Capital*
Financial instruments issued by the Company are treated as equity if the holders have only a residual interest in the assets of the Group after the deduction of all liabilities. The Company's ordinary shares are classified as equity instruments. The Company considers its capital to comprise of its ordinary share capital and accumulated retained earnings.

***Leased Assets***

Assets held under finance leases are capitalised at their fair value at the inception of the lease or, if lower, the present value of the minimum lease payments and depreciated over the shorter of the period of the lease and the estimated life of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the Income Statement.

Operating lease rentals are charged to the Income Statement in equal amounts over the term of the lease.

***Provisions***

The group provides for costs to return the leasehold premises to the original state in the event that one or more of its offices being vacated. The obligation, being of uncertain timing or amount at the balance sheet date, is provided for on a best-estimate basis and is discounted to present value where the effect is material.

***Deferred taxation***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. If it is probable that taxable profits will be available against which deductable temporary differences can be utilised, a deferred tax asset will be recognised.

The deferred tax carrying value is reviewed at each financial year end and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period where the liability is settled or the asset is realised. Deferred tax is charged or credited to the Income Statement, unless it related to items charged or credited directly to equity, in which case the deferred tax is also charged or credited to equity.

1 **Accounting policies** *(continued)*

***Retirement benefits schemes***

The group companies contribute to defined contribution pension plans of some employees at rates agreed between the companies and the employees. Contributions are recognised as they become payable.

***Retirement benefits: Defined contribution schemes***

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

***Retirement benefits: Defined benefit schemes***

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus
- unrecognised past service costs; less
- the effect of minimum funding requirements agreed with scheme trustees.

Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognised in other comprehensive income in the period in which they arise. Past service costs are recognised directly in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past service costs are amortised on a straight line basis over the vesting period. Group schemes are subject to minimum funding requirements (MFR) that impose contribution obligations on the group. If the effect of meeting a MFR would result in the scheme showing a net surplus (because the MFR is determined on a more prudent basis than IAS 19 requires) and the group is not able to benefit from such a surplus in the form of refunds or reductions in future contributions, the defined benefit asset/(liability) recognised is reduced/(increased) accordingly.

***Foreign currency***

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Consolidated Income Statement.

The Statements of Financial Position of the foreign subsidiaries are translated into sterling at the rate ruling at the year end. The results of the foreign subsidiaries are translated into sterling at the average rate of exchange during the financial year. Exchange differences which arise from the translation of the opening net assets of the foreign subsidiary undertakings are included in the Consolidated Statement of Comprehensive Income.

***Finance costs***

Finance costs are charges to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

## 2 Critical accounting estimates and judgements

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

*Impairment of goodwill: £46,436k*

The Group tests annually whether goodwill has suffered impairment. The recoverable amounts of the cash generating units are determined based on value in use calculations. These calculations use estimates and assumptions based on historical evidence and reasonable expectations of future events. A risk arises that the actual carrying amount may differ from those estimates previously accounted for (see note 21 for review performed).

*Deferred Tax Asset: £5,035k*

Recognition of a deferred tax asset in respect of trading losses and accelerated capital allowances is based on the assessment of future profits around which there is always a degree of uncertainty.

*Property, Plant and Equipment: £16,552k*

Property, plant and equipment is depreciated over its useful life. The useful life is based on management estimates of the period that the asset will generate revenue, and is periodically reviewed for appropriateness.

*Development Costs: £1,291k*

Development costs are amortised over their useful life. The useful life is based on management estimates of the period that the asset will generate revenue, and is periodically reviewed for appropriateness.

## 3 Financial Instruments

The Group is exposed to the following financial risks:

- Credit risk
- Interest risk
- Liquidity risk

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

*Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Loans and borrowings

*Fair value of financial instruments*

All of the Group's financial instruments are carried at amortised cost.

There is no material difference between the carrying and fair value of its financial instruments, in the current or prior year, due to the instruments bearing interest at floating rates or being of short term nature.

*General objectives, policies and procedures*

The Group has overall responsibility of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies, to the key management personnel.

The overall objective of the Group is to set policies that seek to reduce risk as far as possible, without unduly affecting the Group's competitiveness and flexibility.

a) Credit risk

Credit risk refers to the possibility that a financial loss will occur as a result of a customers' liability to meet its financial obligations. This arises principally from the Group's trade and other receivables. Potential customers are subjected to credit verification procedures before credit terms are granted. The quality of existing debt which has not been provided for is considered to be collectable, and procedures are in place to monitor trade receivables on an ongoing basis to minimize exposure to bad debts. Trade receivables are only written off once all methods of collection have been exhausted.

The maximum exposure to credit risk is the trade receivable balance at year end. The Group and Company have no significant exposure to any large or key customers.

## 3 Financial Instruments *(continued)*

Trade receivables are summarised as follows:

| Group | 2013 £000's | 2012 £000's |
|---|---|---|
| Up to 30 days | **7,666** | 4,211 |
| Past due: | | |
| 30 to 90 days | **1,976** | 1,151 |
| More than 90 days | **672** | 711 |
| Gross | **10,314** | 6,073 |
| Less allowance for impairment | **(1,156)** | (510) |
| **As at 30 June** | **9,158** | 5,563 |

Allowance for impairment movement in the year:

| Group | 2013 £000's | 2012 £000's |
|---|---|---|
| As at 1 July | **(510)** | (506) |
| Business acquired | **(574)** | - |
| Provided in the year | **(235)** | (171) |
| Written off during the year | **179** | 128 |
| Foreign Exchange | **(16)** | 39 |
| **As at 30 June** | **(1,156)** | (510) |

The Company has no trade receivables.

b) Market risk

Market risk refers to fluctuations in interest rates and exchange rates.

*Interest rate risk*

Interest is payable on the group's main facility at LIBOR plus an agreed margin subject to a minimum LIBOR rate of 1.5%. At June 2013, LIBOR was 0.5%, therefore an increase of 100 basis points in LIBOR would have no effect on profit.

The Group has purchased a 2% LIBOR interest rate cap on £25m of borrowings until November 2014 to reduce the impact on profit should interest rates increase.

*Exchange rates*

Each of the companies in the group trades primarily in the functional currency of that entity. Given this, the risk of exchange rate fluctuations is immaterial to the Group.

The Group's currency exposures comprise only those exposures that give rise to net currency gains and losses to be recognised in the Statement of Comprehensive Income.

## 3 Financial Instruments *(continued)*

The tables below analyses the Group and Company's financial assets and liabilities by currency, at the year-end date specified, and financial assets which mitigate liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows.

| **Group**<br>**As at 30 June 2013** | **Sterling £000's** | **Euro £000's** | **Other currencies £000's** | **Total £000's** |
|---|---|---|---|---|
| Trade and other receivables | 6,360 | 3,741 | 6 | 10,107 |
| Amounts owed by fellow subsidiaries | 1,652 | 817 | - | 2,469 |
| Cash and cash equivalents | 3,747 | 1,438 | 14 | 5,199 |
| Trade and other payables | (11,553) | (3,859) | (103) | (15,515) |
| Loans and borrowings | (51,505) | (4,183) | - | (55,688) |
| Amounts owed to fellow subsidiaries | (696) | (446) | - | (1,142) |
| Amounts owed to parent undertakings | (20,396) | - | - | (20,396) |
| **Total** | **(72,391)** | **(2,492)** | **(83)** | **(74,966)** |

| **Group**<br>**As at 30 June 2012** | **Sterling £000's** | **Euro £000's** | **Other currencies £000's** | **Total £000's** |
|---|---|---|---|---|
| Trade and other receivables | 3,419 | 2,642 | 5 | 6,066 |
| Amounts owed by fellow subsidiaries | 2,593 | - | - | 2,593 |
| Cash and cash equivalents | 2,168 | 799 | 3 | 2,970 |
| Trade and other payables | (6,944) | (2,986) | (242) | (10,172) |
| Loans and borrowings | (7,497) | - | - | (7,497) |
| Amounts owed to fellow subsidiaries | (1,110) | - | - | (1,110) |
| Amounts owed to parent undertakings | (3,177) | - | - | (3,177) |
| **Total** | **(10,548)** | **455** | **(234)** | **(10,327)** |

### 3 Financial Instruments *(continued)*

| Company<br>As at 30 June 2013 | Sterling £000's | Euro £000's | Other currencies £000's | Total £000's |
|---|---|---|---|---|
| Trade and other receivables | 993 | - | - | 993 |
| Amounts owed by Subsidiary Undertaking | 55,436 | - | - | 55,436 |
| Cash and cash equivalents | 197 | 22 | 14 | 233 |
| Trade and other payables | (504) | - | - | (504) |
| Other liabilities | (488) | - | - | (488) |
| Loans and borrowings | (33,977) | - | - | (33,977) |
| Amounts owed to parent undertakings | (20,396) | - | - | (20,396) |
| Amounts owed to subsidiary undertaking | (23,749) | - | - | (23,749) |
| **Total** | **(22,488)** | **22** | **14** | **(22,452)** |

| Company<br>As at 30 June 2012 | Sterling £000's | Euro £000's | Other currencies £000's | Total £000's |
|---|---|---|---|---|
| Trade and other receivables | 961 | - | - | 961 |
| Amounts owed by subsidiary undertaking | 8,269 | - | - | 8,269 |
| Cash and cash equivalents | 280 | - | - | 280 |
| Trade and other payables | (64) | - | - | (64) |
| Other liabilities | (7,497) | - | - | (7,497) |
| Loans and borrowings | (3,177) | - | - | (3,177) |
| Amounts owed to parent undertakings | (15,862) | - | - | (15,862) |
| **Total** | **(17,090)** | **-** | **-** | **(17,090)** |

## 3 Financial Instruments *(continued)*

c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn.

The Group seeks to manage liquidity risk by ensuring that sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably. The Group believes that there will be no immediate call on its liabilities.

The tables below analyses the Group and Company's financial assets and liabilities by remaining contractual maturities, at the year-end date specified, and financial assets which mitigate liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows.

| **Group**<br>**As at 30 June 2013** | **Up to 3 months £000's** | **3 to 12 months £000's** | **1 to 5 years £000's** | **More than 5 years £000's** | **Total £000's** |
|---|---|---|---|---|---|
| Trade and other receivables | 9,720 | 257 | 122 | 8 | 10,107 |
| Amounts owed by fellow subsidiaries | - | - | 2,469 | - | 2,469 |
| Cash and cash equivalents | 5,199 | - | - | - | 5,199 |
| Trade and other payables | (14,557) | (948) | (10) | - | (15,515) |
| Loans and borrowings | (1,511) | (7,268) | (59,770) | - | (68,549) |
| Amounts owed to fellow subsidiaries | (3) | (10) | (1,129) | - | (1,142) |
| Amounts owed to parent undertakings | - | (4,079) | (34,031) | - | (38,110) |
| **Total** | **(1,152)** | **(12,048)** | **(92,349)** | 8 | **(105,541)** |

| **Group**<br>**As at 30 June 2012** | **Up to 3 months £000's** | **3 to 12 months £000's** | **1 to 5 years £000's** | **More than 5 years £000's** | **Total £000's** |
|---|---|---|---|---|---|
| Trade and other receivables | 5,562 | 266 | 238 | - | 6,066 |
| Amounts owed by fellow subsidiaries | - | - | 2,593 | - | 2,593 |
| Cash and cash equivalents | 2,690 | - | 280 | - | 2,970 |
| Trade and other payables | (7,777) | (2,262) | (133) | - | (10,172) |
| Loans and borrowings | - | - | (7,497) | - | (7,497) |
| Amounts owed to fellow subsidiaries | - | - | (1,110) | - | (1,110) |
| Amounts owed to parent undertakings | - | - | (3,177) | - | (3,177) |
| **Total** | **475** | **(1,996)** | **(8,806)** | - | **(10,327)** |

# Claranet Group Limited

**Notes forming part of the financial statements for the year ended 30 June 2013 *(continued)***

3 **Financial Instruments** *(continued)*

| **Company**<br><br>**As at 30 June 2013** | **Up to 3 months £000's** | **3 to 12 months £000's** | **1 to 5 to 5 years £000's** | **Total £000's** |
|---|---|---|---|---|
| Trade and other receivables | - | - | 993 | 993 |
| Amounts owed by Subsidiary Undertaking | - | - | 55,436 | 55,436 |
| Cash and cash equivalents | 233 | - | - | 233 |
| Trade and other payables | (504) | - | - | (504) |
| Other liabilities | - | - | (488) | (488) |
| Loans and borrowings | - | - | (33,977) | (33,977) |
| Amounts owed to parent undertakings | - | - | (20,396) | (20,396) |
| Amounts owed to subsidiary undertaking | - | - | (23,749) | (23,749) |
| **Total** | **(271)** | **-** | **(22,181)** | **(22,452)** |

| **Company**<br><br>**As at 30 June 2012** | **Up to 3 months £000's** | **3 to 12 months £000's** | **1 to 5 to 5 years £000's** | **Total £000's** |
|---|---|---|---|---|
| Trade and other receivables | - | - | 961 | 961 |
| Amounts owed by Subsidiary Undertaking | - | - | 8,269 | 8,269 |
| Cash and cash equivalents | 280 | - | - | 280 |
| Trade and other payables | (64) | - | - | (64) |
| Loans and borrowings | - | - | (7,497) | (7,497) |
| Amounts owed to parent undertakings | - | - | (3,177) | (3,177) |
| Amounts owed to subsidiary undertakings | - | - | (15,862) | (15,862) |
| **Total** | **216** | **-** | **(17,306)** | **(17,090)** |

4 **Revenue**

| | **2013 £000's** | **2012 £000's** |
|---|---|---|
| Revenue by destination: | | |
| United Kingdom | **67,106** | 36,532 |
| France | **13,422** | 10,357 |
| Rest of Europe | **12,311** | 12,753 |
| **Total revenue** | **92,839** | 59,642 |

Revenue was primarily derived from the provision of services.

## 5 Expenses by nature

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Advertising and marketing | **982** | 800 |
| Staff compensation costs (Note 7) | **30,077** | 21,240 |
| Other staff costs (including contractor costs) | **992** | 598 |
| Business travel and entertaining | **787** | 399 |
| Premises costs | **3,090** | 2,234 |
| Other administration costs | **4,786** | 2,545 |
| Depreciation and amortisation | **8,324** | 3,949 |
| Net foreign exchange losses/(gains) | **115** | (43) |
| (Profit) on disposals of PPE | **(101)** | (3) |
| **Total administrative expenses** | **49,052** | 31,719 |

## 6 Exceptional Items

During the year, restructuring costs of £1,540k were incurred integrating the Star and Typhon acquisitions with the existing operations.

## 7 Employees

Staff costs consist of:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Wages and salaries | **25,515** | 17,837 |
| Social security costs | **3,969** | 3,100 |
| Defined contribution pension costs | **593** | 303 |
| **Total staff costs** | **30,077** | 21,240 |

The average number of employees during the year split by function is shown below:

| | 2013 Number | 2012 Number |
|---|---|---|
| Administration | **183** | 56 |
| Operations | **473** | 360 |
| **Total** | **656** | 416 |

## 8 Key Management Personnel

The key management personnel, who have authority for planning, directing and controlling the activities of the company are Charles Nasser (Chief Executive Officer), Michel Robert (UK Managing Director), Nicholas Massard (Non-executive Director) and Nigel Fairhurst (Chief Financial Officer).

| | **2013** **£000's** | **2012** **£000's** |
|---|---|---|
| Remuneration consists of: | | |
| Short term employee benefits | **439** | 399 |
| Post-employment benefits | **16** | 14 |
| **Total key management personnel costs** | **455** | 413 |

The emoluments of the highest paid director were £312,000 (2012 - £289,000), excluding pension contributions.

Total directors emoluments were £312,000 (2012 - £289,000), excluding pension contributions.

## 9 Pensions

Claranet GmbH operates a wholly unfunded defined benefit pension plan for one of its previous employees. The scheme is closed to new members.

Revaluation of plan liabilities:

| | **2013** **£000's** | **2012** **£000's** |
|---|---|---|
| At 1 July | **625** | 531 |
| Interest cost | **27** | 26 |
| Actuarial loss | **79** | 132 |
| Exchange rate loss/(gain) | **43** | (64) |
| **At 30 June** | **774** | 625 |
| Amounts recognised in the consolidated statement of financial position: | | |
| Present value of unfunded obligations | 774 | 625 |
| **Net liability** | 774 | 625 |
| Components of pension expense included in Administration expenses: | | |
| Interest cost | 27 | 26 |
| **Total pension expense** | 27 | 26 |

# Claranet Group Limited

**Notes forming part of the financial statements for the year ended 30 June 2013 *(continued)***

## 9 Pensions *(continued)*

| Cumulative amount of actuarial (gain) / loss recognised in Other Comprehensive Income: | **2013 £000's** | 2012 £000's |
|---|---|---|
| At 1 July 2013 | **130** | (2) |
| Actuarial loss | **79** | 132 |
| **At 30 June 2013** | **209** | 130 |

Principal actuarial assumptions:

| | | |
|---|---|---|
| Discount rate on plan liabilities | **4%** | 4% |
| Expected increase in pensionable salary | **0%** | 0% |
| Inflation rate | **2%** | 2% |
| Expected rate of return on plan assets | **N/A** | N/A |

Defined Benefit Obligation Trends

The group holds equity investments outside of the plan specifically in order to fund the pension. Taking the value of these assets in to account, the following table shows the net deficit of the scheme over the last four years:

| **As at 30 June 2012** | **2013 £000's** | **2012 £000's** | **2011 £000's** | **2010 £000's** |
|---|---|---|---|---|
| Plan assets | **383** | 352 | 385 | 336 |
| Plan liabilities | **(774)** | (625) | (531) | (454) |
| **Surplus/(deficit)** | **(391)** | (273) | (146) | (118) |

Contributions: The Group expects to contribute £Nil to its pension plan in 2014. However the Group will continue to monitor the carrying value of the separately held asset.

## 10 Auditors remuneration

| | **2013 £000's** | **2012 £000's** |
|---|---|---|
| Audit Related assurance services for Group Audit | **5** | 63 |
| Auditors fees for company audit | **145** | 117 |
| Auditors fees for Tax Advisory Services | **91** | 91 |
| Auditors fees for Tax Compliance | **15** | - |
| Auditors fees for other non audit services | **201** | 33 |
| Corporate Finance | **95** | - |
| **Total fees** | 552 | 304 |

## 11 Finance income

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Other interest | 24 | 16 |
| **Total finance income** | 24 | 16 |

## 12 Finance expense

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Interest expense for financial liabilities measured at amortised cost: | | |
| Interest payable on finance leases | 443 | 260 |
| Bank interest payable | 2,333 | 378 |
| Amortisation of loan arrangement fee | 316 | 5 |
| Interest payable to parent company | 2,066 | - |
| Other interest payable | 307 | - |
| Write off of previous loan arrangement fee | 400 | - |
| **Total finance expense** | 5,865 | 643 |

## 13 Taxation

| Analysis of tax expense | 2013 £000's | 2012 £000's |
|---|---|---|
| Foreign tax on profits of the year | **316** | - |
| Total current tax expense | **316** | - |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(543)** | 95 |
| Adjustment in respect of prior periods | **426** | (669) |
| Deferred tax charge | **(117)** | (574) |
| Total tax charge | **199** | (574) |

**Tax Expense Reconciliation**

| | 2013 £000's | 2012 £000's |
|---|---|---|
| (Loss) / Profit before taxation | **(3,235)** | 838 |
| (Loss) / Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 23.75% (2012 - 25.5%) | **(768)** | 214 |
| Effect of | | |
| Depreciation in excess of Capital allowances | **577** | - |
| Increase of tax losses | **(31)** | (310) |
| Expenses not deductible for tax purposes | **36** | (6) |
| Group relief surrendered | **1,079** | - |
| Underprovision in respect of previous years | **(10)** | 214 |
| Non taxable income | **321** | - |
| Reversal of deferred tax asset previously recognised | **427** | |
| Deferred tax recognised on brought forward losses | **-** | (1,059) |
| Deferred tax not recognised | **-** | 193 |
| Movement in deferred tax rate | **114** | 228 |
| Other differences | **(1,346)** | 4 |
| Release of deferred tax liability | **(195)** | |
| Foreign Exchange | **(5)** | (52) |
| **Total tax expense** | **199** | **(574)** |

### 14 Property, Plant and Equipment

| Group | Network computer equipment £000's | Office equipment £000's | Fixtures and fittings £000's | Motor vehicles £000's | Total £000's |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 July 2011 | 23,783 | 687 | 2,208 | 34 | 26,712 |
| Additions | 4,331 | 43 | 65 | - | 4,439 |
| Disposals | (923) | (41) | - | - | (964) |
| Foreign Exchange | (1,121) | (74) | (187) | (2) | (1,384) |
| **At 30 June 2012** | 26,070 | 615 | 2,086 | 32 | 28,803 |
| **Depreciation** | | | | | |
| At 1 July 2011 | 17,761 | 434 | 1,361 | 33 | 19,589 |
| Provided for the Year | 3,528 | 57 | 287 | 1 | 3,873 |
| Depreciation on Disposals | (920) | (41) | - | - | (961) |
| Foreign Exchange | (815) | (47) | (125) | (2) | (989) |
| **At 30 June 2012** | 19,554 | 403 | 1,523 | 32 | 21,512 |
| **Net book value** | | | | | |
| **At 30 June 2012** | 6,516 | 212 | 563 | - | 7,291 |
| **Cost** | | | | | |
| At 1 July 2012 | 26,070 | 615 | 2,086 | 32 | 28,803 |
| Reclassifications | 270 | - | (251) | (19) | - |
| Acquired through business combinations | 2,720 | 4,951 | 2,261 | - | 9,932 |
| Additions | 4,021 | 1,548 | 318 | - | 5,887 |
| Disposals | (1,888) | (282) | (46) | - | (2,216) |
| Foreign Exchange | 776 | 43 | 100 | 1 | 920 |
| **At 30 June 2013** | **31,969** | **6,875** | **4,468** | **14** | **43,326** |
| **Depreciation** | | | | | |
| At 1 July 2012 | 19,554 | 403 | 1,523 | 32 | 21,512 |
| Reclassifications | 146 | - | (127) | (19) | - |
| Provided for the Year | 4,378 | 1,939 | 651 | - | 6,968 |
| Depreciation on Disposals | (1,888) | (281) | (32) | - | (2,201) |
| Foreign Exchange | 384 | 28 | 82 | 1 | 495 |
| **At 30 June 2013** | **22,574** | **2,089** | **2,097** | **14** | **26,774** |
| **Net book value** | | | | | |
| **At 30 June 2013** | **9,395** | **4,786** | **2,371** | **-** | **16,552** |

The carrying value of assets held under finance lease was £11,051k at 30 June 2013 (2012- £5,698k).

## 15 Intangible Assets

| Group | Development costs £000's | Software £000's | Customer Relationships £000's | Brand £000's | Other £000's | Goodwill £000's | Total £000's |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 July 2011 | - | 556 | - | - | - | 10,301 | 10,857 |
| Additions | 757 | 36 | - | - | - | - | 793 |
| Foreign exchange | - | (71) | - | - | - | - | (71) |
| **At 30 June 2012** | 757 | 521 | - | - | - | 10,301 | 11,579 |
| **Amortisation and Impairment** | | | | | | | |
| At 1 July 2011 | - | 377 | - | - | - | 87 | 464 |
| Provided for the year | 45 | 31 | - | - | - | - | 76 |
| Foreign exchange | - | (52) | - | - | - | - | (52) |
| **At 30 June 2012** | 45 | 356 | - | - | - | 87 | 488 |
| **Carrying value at 30 June 2012** | 712 | 165 | - | - | - | 10,214 | 11,091 |
| **Cost** | | | | | | | |
| At 1 July 2012 | 757 | 521 | - | - | - | 10,301 | 11,579 |
| Acquired through business combinations | 130 | - | 17,835 | 246 | 11 | 36,180 | 54,402 |
| Additions | 956 | 149 | - | - | 5 | - | 1,110 |
| Disposals | (172) | (39) | - | - | - | - | (211) |
| Foreign exchange | - | 38 | 79 | 1 | - | 42 | 160 |
| **At 30 June 2013** | **1,671** | **669** | **17,914** | **247** | **16** | **46,523** | **67,040** |
| **Amortisation and impairment** | | | | | | | |
| At 1 July 2012 | 45 | 356 | - | - | - | 87 | 488 |
| Provided for the year | 353 | 72 | 700 | 228 | 3 | - | 1,356 |
| Disposals | (18) | (39) | - | - | - | - | (57) |
| Foreign exchange | - | 25 | 2 | - | - | - | 27 |
| **At 30 June 2013** | **380** | **414** | **702** | **228** | **3** | **87** | **1,814** |
| **Carrying value At 30 June 2013** | **1,291** | **255** | **17,212** | **19** | **13** | **46,436** | **65,226** |

## 15 Intangible Assets *(continued)*

### Goodwill Impairment Tests

Goodwill is allocated to the cash generating units ("CGUs") based on the Group's operations and the carrying value of each unit is set out below:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Ltd, excluding Claranet Technology Group (CTG) | **9,370** | 9,370 |
| Claranet SAS | **2,018** | 844 |
| Star Technology Services ("Star") | **35,048** | - |
| | **46,436** | 10,214 |

The smallest identifiable groups of assets that generate cash inflows are:

- Claranet Ltd, excluding Claranet Technology Group (CTG);
- Claranet SAS; and
- Star.

The cash flows of the acquired businesses, Netscalibur Ltd and U-Net Ltd, are included in the Claranet Ltd CGU as the businesses have been merged with Claranet Ltd and the cash flows are not independently monitored by management,

The recoverable amounts of the cash generating units were determined from value in use calculations. Those calculations were based on cash flow projections from the most recent financial budget approved by management, past performance and directors' expectations of future performance which cover a fifteen year period.

It was assumed in these calculations that the discount rate applied to future cash flows for all the Cash Generating Units was 8% (2012 - 10%). Budgeted revenue has been extrapolated over the remainder of the fifteen year period by applying a 2% per annum churn rate.

The recoverable amount for each CGU was as follows:

| | Claranet Ltd, excluding Claranet Technology Group (CTG) £000's | Claranet SAS £000's | Star £000's |
|---|---|---|---|
| **2013** | 132,666 | 70,744 | 225,098 |

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 16 Investments

**Investments in subsidiary undertakings**

| | Total Investment £000's |
|---|---|
| **Cost at 1 July 2011 and 30 June 2012** | **1,470** |
| **Cost at 1 July 2012 and 30 June 2013** | **1,470** |

At 30 June 2013 the principle subsidiary undertakings are as follows:

| Name | Country of incorporation | Percentage of issued Ordinary share capital held | Nature of business |
|---|---|---|---|
| Claranet Limited | United Kingdom | 100% | Managed network and hosting |
| Claranet SAS | France | 100% | Managed network and hosting |
| Claranet GmbH | Germany | 100% | Managed network and hosting |
| Claranet S.A. | Spain | 100% | Managed network and hosting |
| Star Technology Services Limited [1] | United Kingdom | 100% | Managed network and hosting |
| Typhon Inc [2] | Delaware, US | 100% | Managed hosting |

[1] Indirect shareholding through Claranet Limited
[2] Indirect shareholding through Claranet SAS

## 17 Trade and Other Receivables

**Group**

| **Amounts falling due within one year:** | 2013 £000's | 2012 £000's |
|---|---|---|
| Trade receivables | **10,314** | 6,073 |
| Bad debt provision | **(1,156)** | (510) |
| **Trade receivables** | **9,158** | 5,563 |
| Other receivables | **735** | 465 |
| Prepayments and accrued income | **3,449** | 1,769 |
| **Other receivables** | **4,184** | 2,234 |
| **Total trade and other receivables due within one year** | **13,342** | 7,797 |

The fair value of trade and other receivables above are the same as the carrying values as credit risk has been addressed as part of impairment provisioning and due to the short term nature of the amounts receivable, they are not subject to other ongoing fluctuations in market rates.

## 17 Trade and Other Receivables *(continued)*

| | 2013 | 2012 |
|---|---|---|
| **Amounts falling due in more than one year:** | **£000's** | **£000's** |
| Other receivables | **1,111** | 617 |
| Amounts owed by fellow subsidiary undertakings | **2,469** | 2,593 |
| **Total other receivables due in more than one year** | **3,580** | 3,210 |

**Company**

| | | |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Prepayments | - | 6 |
| **Total trade and other receivables due within one year** | - | 6 |
| **Amounts falling due in more than one year:** | | |
| Amounts owed by subsidiary undertaking | **55,436** | 8,269 |
| Other receivables | **993** | 961 |
| **Total other receivables due in more than one year** | **56,429** | 9,230 |

The fair value of trade and other receivables are the same as the carrying values.

## 18 Trade and Other Payables

**Group**

| **Amounts falling due within one year:** | **2013 £000's** | **2012 £000's** |
|---|---|---|
| Trade payables | **6,858** | 6,463 |
| VAT | **2,156** | 991 |
| Taxation and social security | **1,901** | 393 |
| Other payables | **315** | 74 |
| Accruals | **7,127** | 3,575 |
| **Trade and other payables** | **18,357** | 11,496 |
| Finance lease creditor (Note 19) | **5,601** | 2,406 |
| Bank loans and overdraft | **12** | - |
| Other loans | **146** | - |
| **Loans and borrowings** | **5,759** | 2,406 |
| **Total trade and other payables due within one year** | **24,116** | 13,902 |

Settlement of trade and other payables is in accordance with the Company's terms of trade established with our suppliers. The fair value of trade and other payables are the same as the carrying values.

| **Amounts due in more than one year** | **2013 £000's** | **2012 £000's** |
|---|---|---|
| Other payables | **2,454** | 628 |
| Amounts owed to fellow subsidiaries | **1,142** | 1,110 |
| Amounts owed to parent undertakings | **20,396** | 3,177 |
| **Other liabilities** | **23,992** | 4,915 |
| Finance lease creditor (Note 19) | **5,649** | 2,517 |
| Bank loans | **34,420** | 7,497 |
| Other loans | **9,860** | - |
| **Loans and borrowings** | **49,929** | 10,014 |
| **Total liabilities due in more than one year** | **73,921** | 14,929 |

## 18 Trade and Other Payables *(continued)*

**Company**

| **Amounts falling due within one year:** | **2013 £000's** | **2012 £000's** |
|---|---|---|
| Accruals | **504** | 64 |
| **Trade and other payables due within one year** | **504** | 64 |
| **Amounts due in more than one year** | | |
| Amounts owed to parent undertakings | **20,396** | 3,177 |
| Amounts owed to subsidiary undertaking | **23,749** | 15,862 |
| Other payables | **488** | - |
| **Other liabilities** | **44,633** | 19,039 |
| Bank loans | **33,977** | 7,497 |
| **Loans and borrowings** | **33,977** | 7,497 |
| **Total liabilities due in more than one year** | **78,610** | 26,536 |

The fair value of trade and other payables are the same as the carrying values.

Bank loans and overdrafts consist of a revolving credit facility and an overdraft facility which expire in November 2015. Interest is payable at LIBOR plus a variable margin, as agreed with the Group's bank. Senior debt is provided on a four year term facility at LIBOR plus a variable margin subject to a minimum LIBOR rate of 1.5%. The Group has taken out a 2% LIBOR cap on £25m to reduce the impact on the group should interest rates increase.

## 18 Trade and Other Payables *(continued)*

The Group and Company has undrawn committed borrowing facilities available at 30 June, expiring in more two years for which all conditions have been met, as follows:

| 2013 | Floating Rate £000's | Total £000's |
|---|---|---|
| **Total** | **2,559** | **2,559** |
| **2012** | | |
| **Total** | 503 | 503 |

## 19 Finance Leases

The Group entered into finance lease arrangements for certain plant and equipment. The carrying value of assets held under finance leases at 30 June 2013 was £11,051k.

The carrying value and fair value of the finance lease creditor are materially the same. Future lease payments are due as follows:

| Future lease payments are due as follows: | Minimum Lease Payments 2013 £000's | Interest 2013 £000's | Present Value 2013 £000's |
|---|---|---|---|
| Within one year | 6,044 | (443) | 5,601 |
| Later than one year and not later than five years | 6,030 | (381) | 5,649 |
| **Total repayable** | **12,074** | **(824)** | **11,250** |

| Future lease payments are due as follows: | Minimum Lease Payments 2012 £000's | Interest 2012 £000's | Present Value 2012 £000's |
|---|---|---|---|
| Within one year | 2,607 | (201) | 2,406 |
| Later than one year and not later than five years | 2,688 | (171) | 2,517 |
| **Total repayable** | 5,295 | (372) | 4,923 |

## 20 Provisions

| | Dilapidations £000's |
|---|---|
| Opening balance as at 1 July 2012 | 239 |
| Increase of provision | 404 |
| **Closing balance as at 30 June 2013** | **643** |

The provision for dilapidation costs represents costs to return the leasehold premises to the original state in the event offices are vacated. The obligation, being of uncertain timing or amount at the Statement of Financial Position date, is provided for on a best-estimate basis. The cost is recognised as depreciation of Fixtures and Fittings over the remaining term of the lease.

## 21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of UK 23%, France 33%, Germany 25%, (2012 - UK 24%, France 33%, Germany 25%).

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The movement in the deferred tax asset is shown below:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Opening balance as at 1 July | 3,693 | 3,171 |
| Asset Acquired | 1,254 | - |
| Prior year adjustment | 95 | (214) |
| Current year credit / (charge) | 45 | 964 |
| Movement in prior year due to changes in tax rate | (115) | (228) |
| Foreign Exchange | 63 | |
| **Closing balance as at 30 June** | 5,035 | 3,693 |

This asset is represented by:

Provided deferred tax:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Accelerated capital allowances | 2,530 | 2,514 |
| Other timing differences | - | 18 |
| Trading losses | 2,505 | 1,161 |
| **Total Deferred Taxation Asset** | 5,035 | 3,693 |

**21 Deferred tax** *(continued)*

The movement in the deferred tax liability is shown below:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Opening balance as at 1 July | - | - |
| Liability arising business combination | (4,159) | - |
| Charge for the period | 196 | - |
| **Closing balance as at 30 June** | 3,963 | - |
| This liability is represented by: | | |
| Liability arising on business combination | (3,963) | - |
| **Total Deferred Taxation Liability** | (3,963) | - |

## 22 Capital risk management

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, non-controlling interest, retained earnings, and revaluation reserve) other than amounts in the cash flow hedging reserve.

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

## 23 Share capital

| | 2013 Number | 2012 Number | 2013 £000's | 2012 £000's |
|---|---|---|---|---|
| Allotted, Called Up and Fully Paid Ordinary shares of £1 each | **250,000** | 250,000 | **250** | 250 |

All ordinary shares on issue are fully paid, carry equal voting rights and share equally in dividends and any surplus on wind up.

## 24 Reserves

The retained earning reserve contains the net gains and losses recognised in the Income Statement.

The foreign exchange reserve contains gains/losses arising on translating the net assets of overseas operations into sterling.

## 25 Operating Lease Commitments

At 30 June 2013 or 30 June 2012, the company did not have any operating lease commitments. The Group had the following operating lease commitments:

| | Land and Buildings 2013 £000's | Other 2013 £000's | Land and Buildings 2012 £000's | Other 2012 £000's |
|---|---|---|---|---|
| Total future minimum payments payable on operating leases which expire: | | | | |
| Within one year | **3,386** | **1,460** | 1,356 | 602 |
| In one to five years | **7,554** | **1,856** | 2,103 | 1,016 |
| After 5 years | **100** | **-** | - | - |
| **Total operating leases** | **11,040** | **3,316** | 3,459 | 1,618 |

Operating leases predominantly relate to leases of property and certain computer hardware.

The operating lease charge for the year was £6,475k (2012: £3,608k).

## 26 Related party transactions

Key management personnel remuneration is disclosed in Note 8.

**Group**

| During the year the Group provided services and loans to: | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Benelux | **23** | 267 |
| Claranet Portugal | **67** | 54 |
| Clara.Net Holdings | **1,290** | 888 |
| **Total services provided in year** | **1,380** | 1,209 |

The following balances were receivable balances held with entities that are controlled owned by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Amounts owed by Fellow Subsidiaries.

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Benelux | **1,798** | 2,035 |
| Tagadab | **20** | - |
| Claranet Portugal | **651** | 558 |
| **Total amount owed** | **2,469** | 2,593 |

| During the year the Group received services from: | | |
|---|---|---|
| Claranet Benelux | **(20)** | (88) |
| Claranet Portugal | **(17)** | (93) |
| Clara.Net Holdings | **(18,417)** | - |
| **Total services received** | **(18,454)** | (608) |

The following balances were payable balances held with entities that are controlled by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Amounts due to fellow subsidiaries and amounts due to parent.

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Benelux | **(656)** | (540) |
| Claranet Portugal | **(401)** | (386) |
| Tagadab | **(85)** | (184) |
| Claranet Europe | **(18,417)** | - |
| Clara.Net Holdings | **(1,979)** | (3,177) |
| **Total amount owed** | **(21,538)** | (4,287) |

## 26 Related party transactions *(continued)*

**Company**

Key management personnel remuneration is disclosed in Note 8.

| During the year the company provided services/loans to: | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Germany | **299** | - |
| Claranet Spain | **53** | 116 |
| Claranet France | **330** | 188 |
| Clara.Net Holdings | **1,196** | 875 |
| **Total services provided in year** | **1,878** | 1,179 |

The following balances were receivable balances held with entities that are controlled by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Other Receivables or Amounts owed by Subsidiary Undertakings.

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet Benelux | **990** | 961 |
| Claranet Portugal | **3** | - |
| Claranet Germany | **3,439** | 3,135 |
| Claranet France | **7,161** | 4,765 |
| Claranet Spain | **452** | 369 |
| Claranet UK | **43,514** | - |
| Star Technology Services | **870** | - |
| **Total amount owed** | **56,429** | 9,230 |

During the year the company received services /loan payments from:

| | | |
|---|---|---|
| Clara.Net Holdings | **(18,417)** | - |
| Claranet Limited | **(2,759)** | (610) |
| Claranet Benelux | **(25)** | (163) |
| Claranet Germany | **-** | (546) |
| Claranet France | **(607)** | (1,602) |
| **Total services received** | **(21,808)** | (2,921) |

## 26 Related party transactions *(continued)*

The following balances were payable balances held with entities that are controlled by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Amounts due to Subsidiary Undertakings and amounts due to parent.

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Claranet France | **(3,640)** | (3,013) |
| Claranet Limited | **(20,109)** | (12,849) |
| Clara.Net Holdings | **(1,979)** | (3,177) |
| Claranet Europe | **(18,417)** | - |
| **Total amount owed** | **(44,145)** | (19,039) |

## 27 Cash flow

Cash and cash equivalents for purposes of the statement of cash flows comprises:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Cash available on demand | **5,199** | 2,970 |
| **Total cash and cash equivalents** | **5,199** | 2,970 |

Significant non cash transactions are as follows:

| | 2013 £000's | 2012 £000's |
|---|---|---|
| Assets acquired under finance lease | **5,990** | 3,646 |

## 28 Business combinations during the period

On 22 November 2012, Claranet Limited acquired 100% of the voting equity instruments of STH Limited and its 100% subsidiary Star Technology Services Limited ("Star"). Star is a UK based business that provides managed network and hosting services to SME and enterprise businesses. The total consideration paid was £50.5m satisfied by a combination of cash and vendor loan notes.

The fair values of the identifiable assets and liabilities acquired are as follows:

| | Book value at date of acquisition £000's | Fair value adjustments £000's | Fair value at date of acquisition £000's |
|---|---|---|---|
| **Assets:** | | | |
| Property, plant and equipment | 9,225 | - | 9,225 |
| Intangible assets | 121 | 16,552 | 16,673 |
| Deferred Tax Asset | 1,274 | | 1,274 |
| Trade and other receivables | 4,392 | - | 4,392 |
| Cash | 2,096 | - | 2,096 |
| **Liabities:** | | | |
| Trade and other payables | (8,343) | - | (8,343) |
| Deferred Income | (2,512) | | (2,512) |
| Finance Leases | (3,533) | - | (3,533) |
| Deferred Tax Liability | - | (3,807) | (3,807) |
| | 2,720 | 12,745 | 15,465 |

| | |
|---|---|
| **Fair value of consideration payable** | |
| Cash | 41,013 |
| Loan notes | 9,500 |
| Total consideration | 50,513 |
| Less: Fair value of assets and liabilities acquired | (15,465) |
| **Goodwill** | 35,048 |

From the date of acquisition to the year end, Star contributed £31,155k of revenue and operating profit of £2,894k to the Group's results.

## 28 Business combinations during the period *(continued)*

On 14 December 2012, the group acquired 100% or the voting equity instruments of ALJVD SAS and its 100% subsidiaries Typhon SAS and Typhon Inc ("Typhon"). Typhon provides web hosting and outsourcing of website services in France.

The fair values of the identifiable assets and liabilities acquired are as follows:

| | Book value at date of acquisition £000's | Fair value adjustments £000's | Fair value at date of acquisition £000's |
|---|---|---|---|
| **Assets:** | | | |
| Property, plant and equipment | 707 | - | 707 |
| Intangible assets | 20 | 1,529 | 1,549 |
| Trade and other receivables | 735 | - | 735 |
| Cash | 296 | - | 296 |
| **Liabities:** | | | |
| Trade and other payables | (819) | - | (819) |
| Deferred income | (56) | - | (56) |
| Finance Leases | (224) | - | (224) |
| Bank Loan | (367) | - | (367) |
| Deferred Tax | - | (352) | (352) |
| | 292 | 1,177 | 1,469 |

| | |
|---|---|
| **Fair value of consideration payable** | |
| Cash | 1,626 |
| Deferred cash consideration | 975 |
| Total consideration | 2,601 |
| Less: Fair value of assets and liabilities acquired | (1,469) |
| **Goodwill** | 1,132 |

Deferred consideration was paid in cash in October 2013 (£678k) and November 2013 (£417k).

From the date of acquisition to the year end, Typhon contributed £1,867k of revenue and operating profit of £618k to the Group's results.

Star and Typhon were acquired to expand the group's managed network and hosting business.

Goodwill arose on the acquisitions of Star and Typhon because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Acquisition costs totalling £360k have been recognised within administrative expenses in the 2013 Income Statement.

The goodwill arising on the Star and Typhon acquisitions is not deductible for tax purposes.

## 28 Business combinations during the period *(continued)*

| | Star £000's | Typhon £000's | Total £000's |
|---|---|---|---|
| Total consideration | 50,513 | 2,601 | 53,114 |
| Deferred consideration | - | (975) | (975) |
| Loan notes | (9,500) | - | (9,500) |
| | 41,013 | 1,626 | 42,639 |
| Deduct: cash acquired | (2,096) | (296) | (2,392) |
| **Net cash outflow in year** | 38,917 | 1,330 | 40,247 |

If the acquisitions had occurred on 1st July 2012, group revenue would have been £115,459k and the group loss would have been (£1,877k).

## 29 Profit/loss attributable to Claranet Group Limited

The loss for the financial year of the parent company, Claranet Group Limited was £5.4m (2012 - £1.8m). As permitted by section 408 of the Companies Act 2006, no separate Income Statement is presented in respect of the company.

## 30 Ultimate parent company

The directors consider Claranet Internet Holdings Limited, a company incorporated in Jersey, to be the ultimate parent undertaking. The Nasser family, by virtue of its interests in the ultimate parent undertaking has a controlling interest in the company.

Clara.net Holdings Limited is the Company's immediate parent undertaking.

## 31 Post balance sheet event

On the 30th September 2013, the company listed £16,350,028 of existing debt on the Channel Islands Stock Exchange. The terms of the loan notes were not affected by the listing.