

Claranet Group Limited

Report and Financial Statements

Year Ended

30 June 2014

Company Number 04037420

Claranet Group Limited

Report and financial statements for the year ended 30 June 2014

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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

Group strategic report for the year ended 30 June 2014

The Directors present their strategic report on the group for the year ended 30 June 2014.

Review of the business

Principal activities

Claranet is a managed services provider, offering integrated hosting, network and communication services to businesses. Claranet Group Limited and its subsidiaries (the "Group") comprises operations in the UK, France, Germany, Spain, and the Netherlands. The wider Claranet group of companies (the "Wider Claranet Group"), through its parent Claranet Europe Limited, includes operations in Portugal.

Results and performance

The Group continues to deliver growth through a combination of organic growth and a strategy of acquisitions.

During the year, the Group has made acquisitions in France and the Netherlands, with a further acquisition in Portugal completed by the Wider Claranet Group.

The Group was restructured during 2014 to bring Claranet Benelux BV, which operates in the Netherlands, within the Group. As described in the Accounting Policies (Note 1), this restructuring has been accounted for as a merger with the results of the Group presented in these financial statements on the basis that the new Group had always been in existence.

As a result of organic growth and acquisitions, revenue for the year is £120.7m, up from £97.2m in 2013.

Gross margin for 2014 increased to 58% (2013: 56%). The increase in gross margin has been achieved through a combination of focusing on the profitability of renewals and leveraging our vendor relationships to agree revised pricing on a number of key supplier contracts following the acquisition of Star.

Adjusted EBITDA was £22.6m (2013: £12.9m), where "Adjusted EBITDA" is defined as Earnings Before Interest, Tax, Depreciation and Amortisation adjusted to exclude:

- foreign exchange gains and losses;
- profit or loss on disposal of property, plant and equipment;
- write off of intangible assets; and
- exceptional items.

This increase in Adjusted EBITDA reflects the growth in sales and increased margins together with synergies realised from the integration of earlier acquisitions.

Adjusted EBITDA is stated after £1.4m (2013: £1.5m) of restructuring costs for the integration of the acquisitions with existing businesses, the benefits of which will be seen in future years.

The finance expense for the year is higher as a result of the increase in borrowings that were used to fund the acquisitions and the amortisation of certain arrangement fees. However the Group's profit before taxation for the year was £0.9m (2013: £3.1m loss).

The profit after tax for the year is £0.2m (2013: £3.3m loss).

Acquisitions

On 27 February 2014, the Group acquired 100% of the voting equity instruments of Grita SAS ("Grita"). Grita is a provider of hosting solutions primarily to the healthcare sector in France, offering IT infrastructure, managed hosting and cloud services to its customers. The Enterprise Value* of the business is £2m and the consideration was satisfied in cash.

On 11 April 2014, the Group acquired 100% of voting equity instruments of NovaData B.V. ("NovaData"). NovaData is a Cloud Service Provider located in the Netherlands. The Enterprise Value* of the business is £4m and the consideration will be satisfied in cash with an option for the vendor to take part of the consideration in the form of shares.

** Enterprise Value is measured as the aggregate of the consideration paid and the net debt on acquisition.*

Claranet Group Limited

Group strategic report for the year ended 30 June 2014 (*continued*)

Customers

During financial year 2014, the Group secured a number of important new, renewal and extension contracts, including:

- **In the UK:** UNISON, Greenvale, Care UK, ICAEW, and Signet
- **In Germany:** Leica Camera AG, Oskar Böttcher GmbH & Co. KG, Clifford Thames Ltd, OCLC GmbH, and Betriebsstätte
- **In Spain:** Volotea SL, Privalia Venta Directa SA, Aegis Security SL (Spamina), Clickart Taller de Comunicacio SL, GSI Commerce Solutions International SL - Ebay Enterprise, and Marina Barcelona 92 SA

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 Claranet Group, as of 30 June 2014, was in excess of £185.7 (2013: £172.3m).

Services provided

The Group provides integrated managed services to ensure application availability, performance and security for its customers. These services include:

<i>Application services</i>	<i>Network services</i>	<i>Hosting services</i>	<i>Communication services</i>
<ul style="list-style-type: none">• Managed website applications• Managed email application• Database management	<ul style="list-style-type: none">• Internet connectivity• Private network services	<ul style="list-style-type: none">• Infrastructure as a service (IaaS)• Managed hosting• Colocation hosting	<ul style="list-style-type: none">• Voice services• Hosting IP telephony• Collaboration services

Accreditations

Claranet continues to invest in the continual improvement of its people, processes and systems and holds a number of international and local accreditations including:

- ISO 9001:2008;
- ISO 27001:2005;
- ISO 20000;
- Payment Card Industry Data Security Standard (PCI/DSS);
- Microsoft Gold Partner; and
- VMware Premier Service Provider.

Key performance indicators ("KPIs")

The directors of the Company continue to review and manage both financial and non-financial KPIs on a regular basis. These KPIs include Adjusted EBITDA, gross margin and the total contract value of the customer base as set out in the table below.

	Claranet Group Limited and its subsidiaries		The Wider Claranet Group	
	2014	2013	2014	2013
Adjusted EBITDA	£22.6m	£12.9m	£23.0m	£13.4m
Gross margin	58%	56%	58%	56%
Total contract value at year end	£180.0m	£169.1m	£185.7m	£172.3m

Claranet Group Limited

Group strategic report (continued)
for the year ended 30 June 2014 (continued)

Future developments

The Group will continue with its strategy of targeting growth both organically and through the acquisition of complementary businesses in existing geographical territories. In addition, the Group will continue to foster close collaboration amongst country operations to share operational best practice and product innovation.

Principal Risks and Uncertainties

The management of the business and execution of the Group's strategy are subject to a number of commercial risks. The Board reviews risks and appropriate processes are put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

The key business risks affecting the group are set out below.

Risk	Mitigants
Deflation in the networks market	<ul style="list-style-type: none">• Close monitoring of margins to protect returns in brokering networks• Opportunity to take share from incumbent carriers who are unable to compete with intermediaries on price and service• Continue to upsell solutions that require greater network complexity/volume to ensure networks revenue remains stable e.g. online backup, voice over IP, resilience options and security
Deflation in data centre pricing	<ul style="list-style-type: none">• Devoting more resources to data centre procurement to exploit potential opportunities from diversifying supply• Adding new facilities and working on detailed plans to move from existing facilities if major cost reductions become possible
Maintenance of market share	<ul style="list-style-type: none">• Claranet continually invests in its product offering (eg DoS and Web acceleration and managed hosting) and has further expanded its product management, sales and marketing resources. The benefits of this are already being felt in the sales closed and sales pipelines
Convergence of IT and voice	<ul style="list-style-type: none">• Being able to offer a bundled hosting and voice service to existing network service customers, as well as new customers, will be an area of positive differentiation for customers
European data centre market	<ul style="list-style-type: none">• As buyers may increasingly demand a European data hosting capability from potential suppliers, Claranet should emphasise its European capabilities to customer base as an alternative hosting offering

On behalf of the Board of Directors



M Robert
Director

15 October 2014

Claranet Group Limited

Directors' report for the year ended 30 June 2014

The directors present their report together with the audited financial statements for the year ended 30 June 2014.

Identification of information included in the Strategic Report

An indication of likely future developments in the business is set out in the Strategic Report.

Dividends

The directors do not recommend the payment of a dividend (2013: £Nil).

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 a revolving credit facility to provide working capital of £8.0m.

Interest risk

The Company is exposed to interest rate fluctuations on its borrowings. The Group's debt consists of a £41.0m senior debt facility that has been used to fund the acquisitions during the previous two years that expires in November 2016 and a £8m revolving credit facility, (£7.3m drawn) held with the Royal Bank of Scotland that expires in November 2015. 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 2014, there were no material credit risk balances that were not provided for.

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 £15k for The Prince's Trust in 2014. (2013: £20k)

Claranet Group Limited

Directors' report for the year ended 30 June 2014 (*continued*)

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.

Research and Development

The Group continually invests in the improvement and development of new services to address customer requirements. The expanded Product Management Team works closely with customers, technology partners, industry analysts and staff to set the services strategy and prioritise the product roadmap.

Internal systems development is aligned to support the operational and new service requirements for the Group. This work is managed by a central technology function, Claranet Technology Group (CTG), for the benefit of the Wider Claranet Group.

Post Balance Sheet Events

On 1 July 2014, the Group acquired 100% of voting equity instruments of Free UK Internet Limited ("FreeUK") for £2. FreeUK is an Internet service provider that outsourced all of its operations to Claranet Limited.

Directors

The directors of the Company during the year were:

C Nasser
M Robert
N Massard

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.

Claranet Group Limited

Directors' report for the year ended 30 June 2014 (*continued*)

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 of Directors



M Robert
Director

15 October 2014

Claranet Group Limited

Independent auditor's report

TO THE MEMBERS OF CLARANET GROUP LIMITED

We have audited the financial statements of Claranet Group Limited for the year ended 30 June 2014 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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Claranet Group Limited

Independent auditor's report (*continued*)

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.

BDO LLP

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

15 October 2014

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 2014

	Note	2014 £000's	2013 £000's
Revenue	4	120,714	97,170
Cost of sales		(50,259)	(42,925)
Gross profit		70,455	54,245
Administrative expenses	5	(60,693)	(51,546)
Operating profit		9,762	2,699
<i>Analysed as:</i>			
Operating profit before exceptional items		11,130	4,239
Exceptional items	6	(1,368)	(1,540)
Finance income	11	229	24
Finance expense	12	(9,114)	(5,870)
Profit/(loss) before tax		877	(3,147)
Income tax expense	13	(659)	(199)
Profit/(loss) for the year from continuing operations		218	(3,346)

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Consolidated Statement of Comprehensive Income for the year ended 30 June 2014

	Note	2014 £000's	2013 £000's
Profit/(loss) for the year		218	(3,346)
Other comprehensive income			
Actuarial loss on defined benefit pension scheme	9	(92)	(79)
Exchange differences		(167)	119
Total other comprehensive (loss)/income		(259)	40
Total comprehensive loss for the year		(41)	(3,306)

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Consolidated Statement of Financial Position at 30 June 2014

Company Number 04037420	Note	2014 £000's	2013 £000's
ASSETS			
Non-current assets			
Property, plant and equipment	14	19,460	17,173
Intangible assets	15	71,115	66,864
Other receivables	17	8,049	1,346
Deferred tax asset	21	3,820	5,035
Total non-current assets		102,444	90,418
Current assets			
Trade and other receivables	17	17,035	14,050
Cash and cash equivalents	27	8,643	5,572
Total current assets		25,678	19,622
Total assets		128,122	110,040
LIABILITIES			
Current liabilities			
Trade and other payables	18	(23,134)	(19,250)
Current tax liabilities		-	(44)
Loans and borrowings	18	(6,591)	(5,820)
Total current liabilities		(29,725)	(25,114)
Non-current liabilities			
Other liabilities	18	(25,557)	(23,667)
Loans and borrowings	18	(63,215)	(50,006)
Deferred tax liability	21	(3,453)	(3,963)
Provisions	20	(502)	(643)
Total non-current liabilities		(92,727)	(78,279)
Deferred revenue		(9,874)	(10,810)
Total liabilities		(132,326)	(114,203)
Net liabilities		(4,204)	(4,163)
Capital and reserves			
Share capital	23	250	250
Retained (deficit)/earnings		(2,443)	(2,569)
Foreign currency translation reserve		(2,011)	(1,844)
Total deficit		(4,204)	(4,163)

The financial statements were approved by the Board of Directors and authorised for issue on 15 October 2014.

Signed on behalf of the Board of Directors



M Robert
Director

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Company Statement of Financial Position at 30 June 2014

Company Number 04037420	Note	2014 £000's	2013 £000's
ASSETS			
Non-current assets			
Property, plant and equipment		-	1
Investments	16	1,870	1,470
Other receivables	17	33,645	56,429
Deferred tax asset		12	-
Total non-current assets		35,527	57,900
Current assets			
Trade and other receivables	17	121	-
Cash and cash equivalents		4,081	233
Total current assets		4,202	233
Total assets		39,729	58,133
LIABILITIES			
Current liabilities			
Trade and other payables	18	(812)	(504)
Total current liabilities		(812)	(504)
Non-current liabilities			
Other liabilities	18	(22,599)	(44,633)
Loans and borrowings	18	(46,613)	(33,977)
Total non-current liabilities		(69,212)	(78,610)
Total liabilities		(70,024)	(79,114)
Net liabilities		(30,295)	(20,981)
Capital and Reserves			
Share capital	23	250	250
Retained (deficit)/earnings		(30,545)	(21,231)
Total deficit		(30,295)	(20,981)

The financial statements were approved by the Board of Directors and authorised for issue on 15 October 2014.

Signed on behalf of the Board of Directors



M Robert
Director

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Consolidated Statement of Cash Flows for the year ended 30 June 2014

	Note	2014 £000's	2013 £000's
Cash flows from operating activities			
Profit/(loss) for the year		218	(3,346)
Adjustments for:			
Depreciation and amortisation		11,308	8,623
Finance income	11	(229)	(24)
Finance expense	12	9,114	5,870
Taxation	13	659	199
Loss/(profit) on sale of property, plant and equipment and write off of intangible assets		18	(101)
		21,088	11,221
Increase in trade and other receivables		(2,411)	(713)
Increase/(decrease) in trade and other payables		831	(1,696)
(Decrease)/increase in provisions		(138)	404
Cash generated from operations		19,370	9,216
Taxation paid		(106)	(637)
Net cash from operating activities		19,264	8,579
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,962)	(165)
Purchase of intangible assets		(1,177)	(1,110)
Proceeds on disposal of property, plant and equipment		177	135
Cash outflow on acquisition of subsidiaries (net of cash acquired)	28	(4,148)	(40,247)
Deferred consideration paid		(975)	-
Interest received		-	24
Net cash used in investing activities		(10,085)	(41,363)
Cash flows from financing activities			
Repayment of long term borrowings		-	(7,458)
Drawdown of long term borrowings		12,334	33,349
Interest paid		(8,933)	(2,448)
Payment of finance lease liabilities		(5,778)	(3,544)
(Repayment of)/proceeds from other loans		(218)	220
(Repayment of)/proceeds from parent undertakings		(3,868)	15,152
Net cash generated (used in)/from financing activities		(6,463)	35,271
Net increase in cash and cash equivalents		2,716	2,487
Cash and cash equivalents at beginning of year		5,560	3,073
Effect of exchange rate changes		361	-
Cash and cash equivalents at end of year	27	8,637	5,560

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Company Statement of Cash Flows for the year ended 30 June 2014

	Notes	2014 £000's	2013 £000's
Cash flows from operating activities			
Loss for the year		(9,314)	(5,369)
Adjustments for:			
Depreciation and amortisation		1	1
Interest income		(206)	
Interest expense		8,703	5,113
Taxation		(12)	-
		(828)	(255)
Decrease/(increase) in trade and other receivables		844	(26)
Increase in trade and other payables		83	456
Cash generated from/(used in) operations		99	175
Tax paid		-	-
Net cash from operating activities		99	175
Cash flows from financing activities			
Repayment of long term borrowings		-	(7,497)
Drawdown of long term borrowings		12,199	33,261
Interest paid		(7,131)	(1,858)
Proceeds from/(repayment to) subsidiary undertakings		2,836	(39,280)
(Repayment to)/proceeds from parent undertakings		(4,155)	15,152
Net cash generated from/(used in) financing activities		3,749	(222)
Net increase/(decrease) in cash and cash equivalents		3,848	(47)
Cash and cash equivalents at beginning of year		233	280
Cash and cash equivalents at end of year		4,081	233

The notes on pages 17 to 49 form part of these financial statements.

Claranet Group Limited

Consolidated Statement of Changes in Equity for the year ended 30 June 2014

	Share capital	Retained earnings	Foreign currency translation reserve	Total equity
	£000's	£000's	£000's	£000's
Balance as at 1 July 2012	250	856	(1,963)	(857)
Loss for the year	-	(3,346)	-	(3,346)
Other comprehensive income/(loss)	-	(79)	119	40
Total comprehensive income/(loss)	-	(3,425)	119	(3,306)
Balance as at 30 June 2013	250	(2,569)	(1,844)	(4,163)
Balance as at 1 July 2013	250	(2,569)	(1,844)	(4,163)
Profit for the year	-	218	-	218
Other comprehensive income/(loss)	-	(92)	(167)	(259)
Total comprehensive income/(loss)	-	126	(167)	(41)
Balance as at 30 June 2014	250	(2,443)	(2,011)	(4,204)

The nature of each reserve is disclosed in note 24.

Claranet Group Limited

Company Statement of Changes in Equity for the year ended 30 June 2014

	Share capital	Retained earnings	Total equity
	£000's	£000's	£000's
Balance as at 1 July 2012	250	(15,862)	(15,612)
Total comprehensive loss for the year	-	(5,369)	(5,369)
Balance as at 30 June 2013	250	(21,231)	(20,981)
Balance as at 1 July 2013	250	(21,231)	(20,981)
Total comprehensive loss in the year	-	(9,314)	(9,314)
Balance as at 30 June 2014	250	(30,545)	(30,295)

The nature of each reserve is disclosed in note 24.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014

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 2014 are those of Claranet Group Limited (the "Company") 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 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 2013.*

No new standards, amendments to published standards or interpretations of existing standards effective from 1 July 2013 had a material impact on the financial statements.

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

None of the new standards, interpretations and amendments which are effective for periods beginning after 1 July 2013, 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 2014 using the acquisition method of accounting.

Business Combinations

Business combinations falling within the scope of IFRS3 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.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

1 Accounting policies (*continued*)

Merger accounting

The purchase of Claranet Benelux BV by Claranet Benelux Holdings BV falls outside the scope of IFRS3 Business Combinations as the businesses were under common control.

Paragraph 10 of IAS8 Accounting Policies, Changes in Accounting Estimates and Errors requires management to use its judgement in developing and applying a policy that is relevant, reliable, represents faithfully the transaction, reflects the economic substance of the transaction, is neutral, is prudent and is complete in all material respects when selecting the appropriate methodology for consolidation accounting.

Paragraph 13 of the Financial Reporting Standard 6 ("FRS6") Acquisitions and Mergers (UK) permits merger accounting as a result of a Group reconstruction.

Management believes that it has met the criteria as defined by paragraph 13 of FRS6 and has treated the purchase of Claranet Benelux BV as a Group reconstruction and have applied the FRS6 merger accounting principles to prepare the consolidated financial statements and treated the reconstructed Group as if it had always been in existence. The difference between the consideration paid and the book value of the net assets acquired has been recorded in equity. Comparative information is provided on the basis that the new Group has always been in existence.

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 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 2015/16.
- The Group had a positive cash balance of £8.6m as at 30 June 2014 (£5.6m – 2013) and is forecasting strong positive operating cash flow forecast for 2015/16.
- The current banking facilities were renewed in November 2012 – £32.5m funding for 4 years, which was increased by £8.5m during December 2013 to £41.0m. In addition, the Group was provided with £16.3m funding from its parent during 2013 on a 5 year term.

The directors continue to monitor the Group's funding strategy and have prepared detailed forecasts for future years to 2017. 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 is 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 2013 and 2014.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

1 Accounting policies (*continued*)

Intangible Assets and Goodwill

Goodwill

Goodwill arising on acquisition of subsidiary undertakings 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 Consolidated Income Statement and is not subsequently reversed.

Internally-generated intangible assets - Research and Development

Research expenditure is expensed to the Income Statement 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 Group 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 Income Statement.

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%
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Intangible assets acquired in a business combination - Customer Relationships and 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. Amortisation is recognised on a straight-line basis over their estimated useful lives at the following rate.

Customer relationships	- 5% - 10%
Brands	- Up to 20%

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

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 on a straight line basis over their expected useful lives. The rates generally applicable are:

Network and computer equipment	-	20% - 33⅓%
Office equipment	-	20%
Fixtures and fittings	-	33⅓%
Motor vehicles	-	20%
Leasehold improvements	-	Over the period of the lease
Other equipment	-	20%

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 Group 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 and other receivables are short term in nature as at reporting date, the carrying value is considered to be a reasonable approximation of fair value.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

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 and 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 and 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. Leased assets are depreciated on a straight line basis 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 deductible 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.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

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 income statement 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.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

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: £52,850k

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 15 for review performed).

Deferred Tax Asset: £3,820k

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 (Note 21).

Property, Plant and Equipment: £19,460k

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: £1,826k

Development costs are capitalised based on an assessment on whether they meet the criteria laid down in IAS38 for capitalisation. Capitalised 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.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

3 Financial Instruments

The Group is exposed to the following financial risks:

- Credit risk
- Market 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 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.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

3 Financial Instruments (*continued*)

Trade receivables are summarised as follows:

Group	2014 £000's	2013 £000's
Up to 30 days	6,414	8,079
Past due:		
30 to 90 days	4,841	2,040
More than 90 days	2,544	727
Gross	13,799	10,846
Less allowance for impairment	(1,479)	(1,183)
	12,320	9,663

Allowance for impairment movement in the year:

Group	2014 £000's	2013 £000's
As at 1 July	(1,183)	(606)
Business acquired	-	(574)
Provided in the year	(337)	(163)
Written off during the year	20	179
Unused amounts reversed	3	-
Foreign Exchange	18	(19)
As at 30 June	(1,479)	(1,183)

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 2014, 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.

Foreign currency risk

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.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

3 Financial Instruments (*continued*)

The tables below analyse the Group and Company's financial assets and liabilities by currency, at the year-end date specified, and financial assets which mitigate currency risk.

Group	Sterling £000's	Euro £000's	Other currencies £000's	Total £000's
As at 30 June 2014				
Trade and other receivables	8,633	6,290	20	14,943
Amounts owed by fellow subsidiary undertakings	8	783	-	791
Amounts owed by parent undertakings	5,875	-	-	5,875
Cash and cash equivalents	7,208	1,355	80	8,643
Trade and other payables	(14,750)	(7,103)	(16)	(21,869)
Loans and borrowings	(65,806)	(5,588)	-	(71,394)
Amounts owed to fellow subsidiary undertakings	-	(406)	-	(406)
Amounts owed to parent undertakings	(22,403)	-	-	(22,403)
Total	(81,235)	(4,669)	84	(85,820)

As at 30 June 2013				
Trade and other receivables	5,924	4,336	6	10,266
Amounts owed by fellow subsidiary undertakings	20	651	-	671
Cash and cash equivalents	3,747	1,811	14	5,572
Trade and other payables	(11,553)	(4,588)	(103)	(16,244)
Loans and borrowings	(51,505)	(4,321)	-	(55,826)
Amounts owed to fellow subsidiary undertakings	(85)	(420)	-	(505)
Amounts owed to parent undertakings	(20,708)	-	-	(20,708)
Total	(74,160)	(2,531)	(83)	(76,774)

Company	Sterling £000's	Euro £000's	Other currencies £000's	Total £000's
As at 30 June 2014				
Amounts owed by parent undertakings	5,870	-	-	5,870
Amounts owed by subsidiary undertakings	27,710	-	-	27,710
Amounts owed by fellow subsidiary undertakings	65	-	-	65
Cash and cash equivalents	3,978	60	43	4,081
Trade and other payables	(1,300)	-	-	(1,300)
Loans and borrowings	(48,201)	-	-	(48,201)
Amounts owed to parent undertakings	(22,111)	-	-	(22,111)
Total	(33,989)	60	43	(33,886)

As at 30 June 2013				
Amounts owed by subsidiary undertakings	55,436	-	-	55,436
Amounts owed by fellow subsidiary undertakings	993	-	-	993
Cash and cash equivalents	197	22	14	233
Trade and other payables	(992)	-	-	(992)
Loans and borrowings	(33,977)	-	-	(33,977)
Amounts owed to parent undertakings	(20,396)	-	-	(20,396)
Amounts owed to subsidiary undertakings	(23,749)	-	-	(23,749)
Total	(22,488)	22	14	(22,452)

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

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 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	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
As at 30 June 2014					
Trade and other receivables	11,271	2,289	1,002	381	14,943
Amounts owed by fellow subsidiary undertakings	-	-	791	-	791
Amounts owed by parent undertakings	-	-	5,875	-	5,875
Cash and cash equivalents	8,643	-	-	-	8,643
Trade and other payables	(16,721)	(1,101)	(3,209)	(838)	(21,869)
Loans and borrowings	(2,314)	(7,741)	(65,024)	-	(75,079)
Amounts owed to fellow subsidiary undertakings	-	-	(406)	-	(406)
Amounts owed to parent undertakings	-	-	(22,403)	-	(22,403)
Total	879	(6,553)	(83,374)	(457)	(89,505)
As at 30 June 2013					
Trade and other receivables	9,279	312	667	8	10,266
Amounts owed by fellow subsidiary undertakings	-	-	671	-	671
Cash and cash equivalents	5,572	-	-	-	5,572
Trade and other payables	(15,286)	(948)	(10)	-	(16,244)
Loans and borrowings	(1,533)	(7,307)	(59,847)	-	(68,687)
Amounts owed to fellow subsidiary undertakings	(3)	(10)	(492)	-	(505)
Amounts owed to parent undertakings	-	(4,079)	(34,343)	-	(38,422)
Total	(1,971)	(12,032)	(93,354)	8	(107,349)

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (continued)

3 Financial Instruments (continued)

Company	Up to 3months £000's	3 to 12 months £000's	1 to 5 years £000's	Total £000's
As at 30 June 2014				
Amounts owed by parent undertakings	-	-	5,870	5,870
Amounts owed by subsidiary undertakings	-	-	27,710	27,710
Amounts owed by fellow subsidiary undertakings	-	-	65	65
Cash and cash equivalents	4,081	-	-	4,081
Trade and other payables	(812)	-	(488)	(1,300)
Loans and borrowings	-	(3,625)	(48,201)	(51,826)
Amounts owed to parent undertakings	-	-	(22,111)	(22,111)
Total	3,269	(3,625)	(37,155)	(37,511)
As at 30 June 2013				
Amounts owed by subsidiary undertaking	-	-	55,436	55,436
Amounts owed by fellow subsidiary undertakings	-	-	993	993
Cash and cash equivalents	233	-	-	233
Trade and other payables	(504)	-	(488)	(992)
Loans and borrowings	-	-	(33,977)	(33,977)
Amounts owed to parent undertakings	-	-	(20,396)	(20,396)
Amounts owed to subsidiary undertakings	-	-	(23,749)	(23,749)
Total	(271)	-	(22,181)	(22,452)

4 Segment information

a) Segment information

Information reported to the Chief Operating Decision Maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on the geographic location of operations. Furthermore, the Group manages its operations by region.

The Group has operations in the United Kingdom, France, Germany, Spain and Benelux. Operations in France, Germany, Spain and Benelux have been aggregated into a single reporting segment "Rest of Europe" as these regions meet the aggregation criteria set out in IFRS 8 including:

- The countries are all member of the EU and use the Euro as their currency resulting in similar economic characteristics;
- The same services are provided in each region, namely hosting and networking services; and
- Sales in these territories are predominantly to business customers through similar sales channels.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

4 Segment information (continued)

b) Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment profit	
	2014 £000's	2013 £000's	2014 £000's	2013 £000's
UK	87,488	67,073	18,635	9,223
Rest of Europe	33,226	30,097	3,955	3,653
Total	120,714	97,170	22,590	12,876
Depreciation			(9,385)	(7,240)
Amortisation			(1,923)	(1,383)
(Loss)/profit on disposal of property, plant and equipment and write off of intangible assets			(18)	101
Foreign exchange loss			(134)	(115)
Operating profit before exceptional items			11,130	4,239
Exceptional items			(1,368)	(1,540)
Operating profit			9,762	2,699
Net finance costs			(8,885)	(5,846)
Net profit/(loss)			877	(3,147)

Segment revenue reported above represents revenue generated from external customers. There were no significant sales between segments in the current or prior year. Revenue was primarily derived from the provision of services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the earnings before interest, depreciation and amortisation, and excludes exceptional items. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

c) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

	Assets		Liabilities	
	2014 £000's	2013 £000's	2014 £000's	2013 £000's
UK	79,238	81,067	(23,831)	(22,130)
Rest of Europe	29,738	18,131	(12,427)	(11,071)
Segment assets and liabilities	108,976	99,198	(36,258)	(33,201)
Unallocated assets and liabilities	19,146	10,842	(96,068)	(81,002)
Total assets/liabilities	128,122	110,040	(132,326)	(114,203)

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than current and deferred tax assets, and cash. Goodwill is allocated to reportable segments as described in note 15.
- All liabilities are allocated to reportable segments other than borrowings, and current and deferred tax liabilities.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

4 Segmental information (continued)

d) Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2014 £000's	2013 £000's	2014 £000's	2013 £000's
UK	8,349	6,368	8,483	4,070
Rest of Europe	2,959	2,255	4,129	3,193
	11,308	8,623	12,612	7,263

e) Geographical information

The following is an analysis of the Group's non-current assets by country.

	Non-current assets	
	2014 £000's	2013 £000's
UK	73,887	72,198
Rest of Europe	16,688	11,839
	90,575	84,037

Non-current assets exclude other receivables and deferred tax.

f) Revenue from major products and services

	2014 £000's	2013 £000's
Networks	47,991	52,806
Hosting	60,288	35,230
Other	12,435	9,134
Total Revenue	120,714	97,170

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

5 Expenses by nature

	2014 £000's	2013 £000's
Advertising and marketing	1,355	1,072
Staff compensation costs (Note 7)	35,416	31,777
Other staff costs (including contractor costs)	1,589	1,031
Business travel and entertaining	1,131	798
Premises costs	3,416	3,263
Other administration costs	6,326	4,968
Depreciation and amortisation	11,308	8,623
Net foreign exchange losses	134	115
Loss/(profit) on disposal of property, plant and equipment and write off of intangible assets	18	(101)
Total administrative expenses	60,693	51,546

During the year, the Group capitalised development expenditure of £1,110k (2013: £956k)

6 Exceptional Items

	2014 £000's	2013 £000's
Restructuring costs incurred integrating acquisitions with the existing operations	1,368	1,540

7 Employees

	2014 £000's	2013 £000's
Staff costs consist of:		
Wages and salaries	29,409	26,957
Social security costs	5,237	4,157
Defined contribution pension costs	770	663
Total staff costs	35,416	31,777

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

	2014 Number	2013 Number
Administration	224	191
Operations	442	498
Total	666	689

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

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), Nicolas Massard (Non-executive Director) and Nigel Fairhurst (Chief Financial Officer).

	2014 £000's	2013 £000's
Remuneration consists of:		
Short term employee benefits	588	439
Post-employment benefits	22	16
Total key management personnel costs	610	455

The emoluments of the highest paid director were £292,500 (2013: £312,000), excluding pension contributions.

Total directors' emoluments were £292,500 (2013: £312,000), 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:

	2014 £000's	2013 £000's
At 1 July	774	625
Interest cost	26	27
Actuarial loss	92	79
Exchange rate loss/(gain)	(54)	43
At 30 June	838	774
Amounts recognised in the consolidated statement of financial position:		
Present value of unfunded obligations	838	774
Net liability	838	774
Components of pension expense included in Administration expenses:		
Interest cost	26	27
Total pension expense	26	27

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

9 Pensions (*continued*)

	2014 £000's	2013 £000's
Cumulative amount of actuarial (gain)/loss recognised in Other Comprehensive Income:		
At 1 July	209	130
Actuarial loss	92	79
At 30 June	301	209
Principal actuarial assumptions:		
Discount rate on plan liabilities	3%	4%
Expected increase in pensionable salary	0%	0%
Inflation rate	2%	2%
Rate of pension increase	2%	2%

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:

	2014 £000's	2013 £000's	2012 £000's	2011 £000's
Plan assets	367	383	352	385
Plan liabilities	(838)	(774)	(625)	(531)
Deficit	(471)	(391)	(273)	(146)

Contributions: The Group expects to contribute £Nil to its pension plan in 2015. However the Group will continue to monitor the carrying value of the separately held asset.

10 Auditors remuneration

	2014 £000's	2013 £000's
Audit Related assurance services for Group audit	8	5
Company audit	299	167
Tax advisory services	82	93
Tax compliance	23	15
Other non-audit services	1	223
Corporate finance	-	95
Total fees	413	598

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

11 Finance income

	2014 £000's	2013 £000's
Foreign exchange gains	229	-
Other interest	-	24
Total finance income	229	24

12 Finance expense

	2014 £000's	2013 £000's
Interest expense for financial liabilities measured at amortised cost:		
Interest payable on finance leases	638	443
Bank interest payable	3,593	2,334
Amortisation of loan arrangement fee	597	316
Interest payable to parent company	3,694	2,066
Other interest payable	592	311
Write off of previous loan arrangement fee	-	400
Total finance expense	9,114	5,870

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

13 Taxation

	2014 £000's	2013 £000's
Analysis of tax expense		
Current tax		
Foreign tax on profits of the year	84	316
Total current tax expense	84	316
Deferred tax		
Current year	210	(543)
Adjustment in respect of prior periods	365	426
Deferred tax charge	575	(117)
Total tax charge	659	199
 Tax Expense Reconciliation		
Profit/(loss) before taxation	877	(3,147)
 Profit/(loss) before taxation multiplied by standard rate of corporation tax in the United Kingdom of 22.5% (2013: 23.75%)	197	(747)
 Effect of:		
Income not taxable	-	321
Tax incentives – enhanced research and development	(75)	-
Items not deductible for tax purposes	279	36
Depreciation in excess of capital allowances not recognised	-	577
Recognition and utilisation of tax losses not recognised	(31)	(52)
Group relief surrendered	-	1,079
Other reconciling items	18	(1,346)
Impact on deferred tax arising from changes in tax rates	45	114
Reversal of deferred tax asset previously recognised	-	427
Release of deferred tax liability	-	(195)
Adjustment to tax in respect of prior periods	365	(10)
Foreign exchange differences taken to reserves	(120)	-
Overseas tax rate differences	(19)	-
Foreign exchange	-	(5)
Total tax expense	659	199

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

14 Property, Plant and Equipment

Group	Network computer equipment £000's	Office equipment £000's	Fixtures and fittings £000's	Motor vehicles £000's	Leasehold improvements £000's	Other equipment £000's	Total £000's
Cost							
At 1 July 2012	29,352	615	2,086	32	269	2,130	34,484
Reclassifications	270	-	(251)	(19)	-	-	-
Acquired through business combinations	2,720	4,951	2,261	-	-	-	9,932
Additions	4,139	1,548	318	-	148	-	6,153
Disposals	(4,637)	(282)	(46)	-	-	-	(4,965)
Foreign exchange	984	43	100	1	22	133	1,283
At 30 June 2013	32,828	6,875	4,468	14	439	2,263	46,887
Depreciation							
At 1 July 2012	22,699	403	1,523	32	140	1,804	26,601
Reclassifications	146	-	(127)	(19)	-	-	-
Provided for the year	4,582	1,939	651	-	68	-	7,240
Depreciation on disposals	(4,637)	(281)	(32)	-	-	-	(4,950)
Foreign exchange	589	28	82	1	11	112	823
At 30 June 2013	23,379	2,089	2,097	14	219	1,916	29,714
Net book value							
At 30 June 2013	9,449	4,786	2,371	-	220	347	17,173
Cost							
At 1 July 2013	32,828	6,875	4,468	14	439	2,263	46,887
Acquired through business combinations	653	31	201	24	-	-	909
Additions	8,970	1,617	214	-	517	117	11,435
Disposals	(439)	(210)	(87)	-	-	-	(736)
Foreign exchange	(1,011)	(29)	(116)	(2)	(49)	(149)	(1,356)
At 30 June 2014	41,001	8,284	4,680	36	907	2,231	57,139
Depreciation							
At 1 July 2013	23,379	2,089	2,097	14	219	1,916	29,714
Provided for the year	5,369	3,125	631	2	133	125	9,385
Depreciation on disposals	(274)	(185)	(87)	-	-	-	(546)
Foreign exchange	(615)	(17)	(95)	(1)	(19)	(127)	(874)
At 30 June 2014	27,859	5,012	2,546	15	333	1,914	37,679
Net book value							
At 30 June 2014	13,142	3,272	2,134	21	574	317	19,460

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

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 2012	757	654	-	-	-	11,873	13,284
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	-	46	79	1	-	42	168
At 30 June 2013	1,671	810	17,914	247	16	48,095	68,753
Amortisation and impairment							
At 1 July 2012	45	400	-	-	-	87	532
Provided for the year	353	99	700	228	3	-	1,383
Disposals	(18)	(39)	-	-	-	-	(57)
Foreign exchange	-	29	2	-	-	-	31
At 30 June 2013	380	489	702	228	3	87	1,889
Carrying value							
At 30 June 2013	1,291	321	17,212	19	13	48,008	66,864
Cost							
At 1 July 2013	1,671	810	17,914	247	16	48,095	68,753
Acquired through business combinations	-	-	196	36	50	5,036	5,318
Additions	1,110	59	-	-	8	-	1,177
Disposals	-	(165)	-	-	(5)	-	(170)
Foreign exchange	-	(47)	(108)	(2)	(2)	(205)	(364)
At 30 June 2014	2,781	657	18,002	281	67	52,926	74,714
Amortisation and impairment							
At 1 July 2013	380	489	702	228	3	87	1,889
Provided for the year	575	128	1,170	40	10	-	1,923
Disposals	-	(165)	-	-	-	-	(165)
Foreign exchange	-	(32)	(5)	(1)	1	(11)	(48)
At 30 June 2014	955	420	1,867	267	14	76	3,599
Carrying value							
At 30 June 2014	1,826	237	16,135	14	53	52,850	71,115

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

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:

	2014 £000's	2013 £000's
Claranet UK	44,418	44,418
Claranet France	4,146	2,018
Claranet Benelux	4,286	1,572
	52,850	48,008

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

- Claranet UK which comprises Claranet Ltd, excluding Claranet Technology Group ("CTG"), and Star Technology Services Limited
- Claranet France which comprises Claranet SAS and Grita SA
- Claranet Benelux which comprises Claranet Benelux BV and NovaData BV

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 which covers a three year period, past performance and directors' expectations of future performance.

It was assumed in these calculations that the post tax discount rate applied to future cash flows for all the Cash Generating Units was 10% (2013: 8%). Budgeted revenue has been extrapolated over future periods by applying a 2% per annum churn rate. (2013: 2% churn)

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.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

16 Investments

Investments in subsidiary undertakings

	Total Investment £000's
Cost	
At 1 July 2012 and 30 June 2013	1,470
Additions	400
At 30 June 2014	1,870

During the year, Claranet Group Limited forgave a loan to a subsidiary undertaking of £400k which has been treated as a capital contribution.

At 30 June 2014 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
Claranet Benelux BV ³	Netherlands	100%	Managed network and hosting
NovaData BV ³	Netherlands	100%	Managed network and hosting
Grita SA ²	France	100%	Managed network and hosting

¹ Indirect shareholding through Claranet Limited

² Indirect shareholding through Claranet SAS

³ Indirect shareholding through Claranet Benelux Holdings BV

17 Trade and Other Receivables

Group	2014 £000's	2013 £000's
Amounts falling due within one year:		
Trade receivables	13,799	10,846
Bad debt provision	(1,479)	(1,183)
Trade receivables	12,320	9,663
Other receivables	703	781
Prepayments and accrued income	4,012	3,606
Other receivables	4,715	4,387
Total trade and other receivables due within one year	17,035	14,050

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.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

17 Trade and Other Receivables (*continued*)

	2014 £000's	2013 £000's
Amounts falling due in more than one year:		
Other receivables	1,383	675
Amounts owed by parent undertakings	5,875	-
Amounts owed by fellow subsidiary undertakings	791	671
Total other receivables due in more than one year	8,049	1,346

Company

Amounts falling due within one year:		
Other receivables	36	-
Prepayments	85	-
Total trade and other receivables due within one year	121	-
Amounts falling due in more than one year:		
Amounts owed by parent undertakings	5,870	-
Amounts owed by subsidiary undertakings	27,710	55,436
Amounts owed by fellow subsidiary undertakings	65	993
Total other receivables due in more than one year	33,645	56,429

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

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

18 Trade and Other Payables

Group	2014 £000's	2013 £000's
Amounts falling due within one year:		
Trade payables	9,218	7,250
VAT	2,154	2,228
Taxation and social security	1,859	1,993
Other payables	2,315	323
Accruals	7,588	7,456
Trade and other payables	23,134	19,250
Finance lease creditor (Note 19)	6,261	5,662
Bank loans and overdraft	330	12
Other loans	-	146
Loans and borrowings	6,591	5,820

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.

	2014 £000's	2013 £000's
Amounts due in more than one year		
Other payables	2,748	2,454
Amounts owed to fellow subsidiary undertakings	406	505
Amounts owed to parent undertakings	22,403	20,708
Other liabilities	25,557	23,667
Finance lease creditor (Note 19)	6,883	5,726
Bank loans	46,830	34,420
Other loans	9,502	9,860
Loans and borrowings	63,215	50,006

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

18 Trade and Other Payables (*continued*)

Company	2014 £000's	2013 £000's
Amounts falling due within one year:		
Accruals	812	504
Trade and other payables due within one year	812	504
Amounts due in more than one year:		
Amounts owed to parent undertakings	22,111	20,396
Amounts owed to subsidiary undertakings	-	23,749
Other payables	488	488
Other liabilities	22,599	44,633
Bank loans	46,613	33,977
Loans and borrowings	46,613	33,977
Total liabilities due in more than one year	69,212	78,610

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

Bank loans and overdrafts in both the Group and Company 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.

Bank loans are stated net of unamortised loan arrangement fees of £1,588k (2013: £1,888k)

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

18 Trade and Other Payables (continued)

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

	2014 £000's	2013 £000's
Senior debt facility	105	-
Revolving credit facility (Floating rate, Committed)	694	2,599
Bank overdraft (Floating rate, Uncommitted)	2,000	2,000
Total	2,799	4,559

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 2014 was £11,948k (2013: £11,308k).

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

	Minimum Lease Payments £000's	Interest £000's	Present Value £000's
2014			
Future lease payments are due as follows:			
Within one year	6,855	(594)	6,261
Later than one year and not later than five years	7,319	(436)	6,883
Total repayable	14,174	(1,030)	13,144
2013			
Future lease payments are due as follows:			
Within one year	6,077	(415)	5,662
Later than one year and not later than five years	6,110	(384)	5,726
Total repayable	12,187	(799)	11,388

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

20 Provisions

	Dilapidations £000's
At 1 July 2013	643
Increase of provision	7
Utilised during the year	(145)
Foreign exchange	(3)
At 30 June 2014	502

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.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of UK 20%, France 33%, Germany 33%, (2013: UK 23%, 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 and liability are shown below:

	2014 Asset £000's	2014 Liability £000's	2014 Net £000's	2013 Asset £000's	2013 Liability £000's	2013 Net £000's
At 1 July	5,035	(3,963)	1,072	3,693	-	3,693
Asset/(liability) acquired through business combinations	-	(30)	(30)	1,254		1,254
Liability arising on business combination	-	(58)	(58)	-	(4,159)	(4,159)
Current year credit/(charge)	(969)	759	(210)	(70)	196	126
Prior year adjustment	(204)	(161)	(365)	95	-	95
Foreign exchange	(42)	-	(42)	63	-	63
At 30 June	3,820	(3,453)	367	5,035	(3,963)	1,072
Represented by:						
Accelerated capital allowances	2,991	-	2,991	2,530	-	2,530
Trading losses	742	-	742	2,505	-	2,505
Liability arising on business combination	-	(3,423)	(3,423)	-	(3,963)	(3,963)
Other timing differences	87	(30)	57	-	-	-
Total deferred taxation asset/(liability)	3,820	(3,453)	367	5,035	(3,963)	1,072

The current year deferred tax charge includes £45k (2013: £114k) in respect of changes in UK tax rates.

There is a potential deferred tax asset of £6,490k (2013: £6,235k) that has not been recognised due to the uncertainty concerning the timescale as to its recoverability.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (*continued*)

22 Capital risk management

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, retained earnings, and foreign currency translation 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

	2014 Number	2013 Number	2014 £000's	2013 £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 earnings reserve contains the net gains and losses recognised in the Consolidated Income Statement.

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

25 Operating Lease Commitments

At 30 June 2014 and 30 June 2013, the Company had no operating lease commitments. The Group had the following commitments under non-cancellable operating lease:

	Land and Buildings 2014 £000's	Other 2014 £000's	Land and Buildings 2013 £000's	Other 2013 £000's
Within one year	5,376	760	3,549	1,557
In one to five years	13,250	686	8,098	1,976
After 5 years	3,993	-	100	-
Total operating leases	22,619	1,446	11,747	3,533

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

The operating lease charge for the year was £3,531k (2013: £6,735k).

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

26 Related party transactions

Key management personnel remuneration is disclosed in Note 8.

Services between the Company and Group and entities that are controlled by its ultimate parent, Claranet Internet Holdings Limited are set out in the table below.

	Services provided		Services received	
	2014 £000's	2013 £000's	2014 £000's	2013 £000's
Company				
Fellow subsidiary undertakings	429	289	-	-
Group				
Fellow subsidiary undertakings	70	164	19	56

Balances held with entities that are controlled by its ultimate parent, Claranet Internet Holdings Limited are disclosed separately in notes 17 and 18 with movements on the loans disclosed in the Cash Flow Statement.

27 Cash flow

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

	2014 £000's	2013 £000's
Cash available on demand	8,643	5,572
Bank overdraft	(6)	(12)
Total cash and cash equivalents	8,637	5,560

Significant non cash transactions are as follows:

Assets acquired under finance lease	7,473	6,138
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Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

28 Business combinations during the period

On 27 February 2014, the group acquired 100% of the voting equity instruments of Grita SA ("Grita"). Grita is a provider of hosting solutions primarily to the healthcare sector in France, offering IT infrastructure, managed hosting and cloud services to its customers. The total consideration paid was £1.9m satisfied in cash.

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	255	-	255
Intangible assets	16	9	25
Trade and other receivables	338	-	338
Liabilities:			
Bank overdraft	(296)	-	(296)
Trade and other payables	(474)	-	(474)
Finance leases	(154)	-	(154)
Deferred tax liability	-	(2)	(2)
	(315)	7	(308)
Fair value of consideration payable			
Cash			1,915
Less: Fair value of assets and liabilities acquired			308
Goodwill			2,223

From the date of acquisition to the year end, Grita contributed £727k of revenue and an operating loss of £44k to the Group's results.

Claranet Group Limited

Notes forming part of the financial statements for the year ended 30 June 2014 (continued)

28 Business combinations during the period (continued)

On 11 April 2014, the Group acquired 100% of the voting equity instruments of NovaData BV ("NovaData"). NovaData is a provider of cloud services to its customers in the Netherlands.

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	654	-	654
Intangible assets	34	223	257
Trade and other receivables	1,047	-	1,047
Cash	178	-	178
Liabilities:			
Trade and other payables	(703)	-	(703)
Finance leases	(207)	-	(207)
Loans	(44)	-	(44)
Deferred income	(319)	-	(319)
Deferred tax	(30)	(56)	(86)
	610	167	777
Fair value of consideration payable			
Cash			2,115
Fair Value of deferred consideration			524
Fair value of contingent consideration			951
Total consideration			3,590
Less: Fair value of assets and liabilities acquired			(777)
Goodwill			2,813

Deferred Consideration is payable in three equal instalments of £221k following agreement of the 2015, 2016 and 2017 financial statements. The instalments total £663k and have a present value of £524k.

Contingent consideration of £187k, £436k, and £623k is payable following agreement of the 2015, 2016 and 2017 financial statements respectively, and contingent on meeting specified targets. The present value of the consideration is £951k. The vendor has options to use up to 50% of the contingent consideration to purchase shares in parent company Claranet Europe Limited at a price fixed on acquisition. These options were assessed to have negligible value at the date of acquisition. Management have assessed the range of possible outcomes and consider it highly likely that the contingent consideration will be paid in full.

From the date of acquisition to the year end, NovaData contributed £1,202k of revenue and operating profit of £39k to the Group's results.

Grita and NovaData were acquired to expand the Group's cloud, managed network and hosting business.

Goodwill arose on the acquisitions of Grita and NovaData 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 £388k have been recognised within administrative expenses in the 2014 Income Statement.

The goodwill arising on the Grita and NovaData acquisitions is not deductible for tax purposes.

Claranet Group Limited

Notes forming part of the financial statements
for the year ended 30 June 2014 (*continued*)

28 Business combinations during the period (*continued*)

	Grita £000's	NovaData £000's	Total £000's
Total consideration	1,915	3,590	5,505
Deferred consideration	-	(524)	(524)
Contingent consideration	-	(951)	(951)
	1,915	2,115	4,030
Deduct: cash acquired	296	(178)	118
Net cash outflow in year	2,211	1,937	4,148

If the acquisitions had occurred on 1 July 2013, Group revenue would have been £126,399k and the Group's operating profit would have been £9,426k.

29 Profit/loss attributable to Claranet Group Limited

The loss for the financial year of the parent company, Claranet Group Limited was £9,314k (2013: £5,369k). 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 1 July 2014, the Group acquired 100% of voting equity instruments of Free UK Internet Limited ("FreeUK") for £2. FreeUK is an Internet service provider that outsourced all of its operations to Claranet Limited.