

# Financial Statements Exponential-e Limited

---

For the year ended 31 January 2016

Registered number: 04499567

WEDNESDAY



\*A57AAD1V\*

A29

18/05/2016

#283

COMPANIES HOUSE

**Exponential-e Limited**  
**Registered number:04499567**

## Company Information

|                            |                                                                                                                                                         |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors</b>           | L F Wade<br>M Bavisi<br>M R Field<br>A Hobbins<br>S Acott<br>M C Cappella<br>C Christou (appointed 1 March 2015)<br>J Kyrillou (appointed 1 March 2016) |
| <b>Company secretary</b>   | M R Field                                                                                                                                               |
| <b>Registered number</b>   | 04499567                                                                                                                                                |
| <b>Registered office</b>   | 100 Leaman Street<br>London<br>E1 8EU                                                                                                                   |
| <b>Independent auditor</b> | Grant Thornton UK LLP<br>Chartered Accountants & Statutory Auditor<br>Grant Thornton House<br>Melton Street<br>Euston Square<br>London<br>NW1 2EP       |
| <b>Bankers</b>             | Lloyds Bank Group plc<br>Technology, Media and Telecoms Team<br>4th Floor<br>25 Gresham Street<br>London<br>EC2V 7HN                                    |
| <b>Solicitors</b>          | DAC Beachcroft LLP<br>100 Fetter Lane<br>London<br>EC4A 1BN                                                                                             |

**Exponential-e Limited**  
**Registered number:04499567**

## Contents

|                                   | Page    |
|-----------------------------------|---------|
| Strategic report                  | 1 - 3   |
| Directors' report                 | 4 - 6   |
| Independent auditor's report      | 7 - 8   |
| Statement of comprehensive income | 9       |
| Statement of financial position   | 10      |
| Statement of changes in equity    | 11      |
| Statement of cash flows           | 12      |
| Notes to the financial statements | 13 - 27 |

# Strategic Report

For the Year Ended 31 January 2016

## Business review

The directors are pleased to report another year of strong growth and good progress, further supporting our primary goal of creating a world-class integrated Cloud and Networking company.

Since 2002 Exponential-e has been developing its Ethernet wide area Network, and we are proud to now serve a large footprint within the UK, Europe and key financial centres in the USA. Our Network infrastructure is highly resilient and enables us to provide superior performance to our customers, whilst enabling them a unique way in which to extend their reach from their own premises in to Exponential-e's Data Centres and Cloud platforms – all whilst maintaining security and privacy, with quality of service guaranteed.

In 2013 we launched our model “Your Cloud is only as Good as your Network” whereby we integrated our unique Network footprint with our Cloud infrastructure, thereby providing seamless interoperability and single end-to-end SLAs. Within such a rapidly growing market this allowed us to offer customers the choice of Hybrid, Private or Public Cloud solutions, with the key enabling factor being our unique Layer 2 Ethernet Network.

Our unique Network is key for customers who have high data security requirements, and to ensure we meet their requirements we are able to run their applications from the Cloud through a UK based Data Centre – with instantaneous replication at another geographically distant one. Cloud platforms are currently deployed from our Data Centres in London, Slough and most recently in Farnborough.

The connections between the customer's premises and the Cloud Data Centres are implemented with a very advanced and flexible design, which provides a superior service and supports business critical services for both now and in the future. Using best of breed technology, we are delivering an innovative “non-stop compute solution” which provides customers with high levels of resilience and up-time.

We believe that Exponential-e is unique in offering this type of solution, and can continue to lead the way within a market facing such high growth.

The success of this and more, in areas across the business including sales, engineering and R&D has fed through to our financial results – which are as follows:

- Turnover increased to £77.3m (£60.6m) + 28% Growth.
- EBITDA increased to £13.8m (£10.2m) +35% Growth.
- Pre-tax profits increased to £6.7m (£4.6m) +46% Growth.

The directors have authorised a dividend of 64.5 pence (50p), an increase of +29%.

We made significant progress and investment within the following areas during 2015:

- The deployment of a third Cloud node in Hampshire during Q3 2015.
- The extension of our UK national Network footprint by 40 new exchanges, which are due to go live during 2016.
- Successful tender processes for the new Government technology frameworks RM1045 and RM1058. This will support our efforts in the public sector space with Voice, Cloud and Networks.
- We took a third floor at 100 Leman Street, thereby extending our office space to 35,000 square feet. This will accommodate the 400+ staff we have plan to have employed by the end of the next financial year.
- The company continues to run our successful Sales Academy programme, taking young people from various backgrounds and train them in our model, technologies and sales methods.

The directors look forward to continuing the proven success of Exponential-e for 2016 and in subsequent years.

## Strategic report (continued)

### **Principal risks and uncertainties**

The company uses financial instruments including loans, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. The existence of these financial instruments exposes the company to a number of financial risks which are described in more detail over the following pages.

The main risks arising from the company's financial instruments are market risk, cash flow interest rate risk, liquidity risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised as follows. These policies have remained unchanged from previous years.

### **Market risk**

Market risk encompasses three types of risk, being currency risk, fair value interest rate risk and price risk. The company's policies for managing fair value interest rate risk are considered, along with those for managing cash flow interest rate risk, and are set out in the subsection entitled "interest rate risk".

The directors manage price risk by matching the prices of inputs to sales contracts where this is possible through the supply contracts.

### **Currency risk**

The company is exposed to translation and transaction foreign exchange risk arising from the purchase of a small number of circuits in US Dollars and Euros. As this risk relates to less than 2% of circuits purchased, any losses or gains are recognised as invoices are settled.

All sales to customers are denominated in Sterling.

### **Interest rate risk**

The company finances its operations through a mixture of retained profits and bank borrowings. The bank finance is provided through a revolving credit facility whereby the interest is fixed for the period of each drawdown. The directors monitor interest rate trends and will consider interest rate management when appropriate.

### **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 and revolving credit facilities. The company has access to undrawn facilities of £7.8m, comprising an overdraft facility of £1m and a revolving credit facility of £14m. The RCF facility was originally agreed in January 2012, and extended by accordion in May 2015 to £14m. It is due for renewal in July 2017.

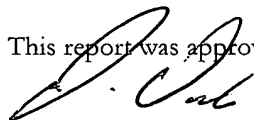
## Strategic report (continued)

### **Credit risk**

The company's principal financial assets are cash and trade debtors. The credit risk associated with the cash is limited as the counterparties have high credit ratings. The principal credit risk arises, therefore, from its trade debtors.

In order to manage credit risk, the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history. The directors recognise that there is an elevated risk of bad debts to the business in the current economic climate. The cost of this risk, measured as the provisions made during the year for bad debts, was £238,859 in the year to January 2016 (January 2015 - £528,749). The company's business is however widely distributed with no single customer contributing more than 3.3% (2015: 3%) of turnover which helps to mitigate this risk.

This report was approved by the board on 11 May 2016 and signed on its behalf.



**L F Wade**  
CEO

## Directors' Report

For the Year Ended 31 January 2016

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

### Results and dividends

The profit for the year, after taxation, amounted to £5,757,699 (2015 -£3,851,595).

Dividends of £0.645 (2015 - £0.50) per share were proposed and approved by the Board of directors.

### Directors

The directors who served during the year were:

L F Wade  
M Bavis  
M R Field  
A Hobbins  
S Acott  
M C Cappella  
C Christou (appointed 1 March 2015)

### Employee information

The company has an open policy on disseminating information to employees, and by way of example:

- The monthly sales and operational figures are published on the intranet, which is accessible to all.
- Financial information is made available monthly to managers, who are encouraged to share this information with their team
- A monthly newsletter is circulated to all employees and customers
- An annual presentation event is run where the Directors summarise the company's past performance and future plans as well as share the great employee achievements over the past year

We run an employee engagement survey each year, then this is followed up by focus groups to discuss the key issues that the survey reveals. The comments made at these group meetings are then fed back to senior management on an anonymous basis and actions agreed.

Exponential-e is keen on training its staff, and has the following programs in place:

- An academy program where new recruits are identified and put through a full time training for 8 weeks. They are mentored throughout this programme and into their new roles within a Sales team, if successful
- Current employees have management or skills training courses for them to attend
- All staff go through an annual review process where their progress is assessed, and that can discuss further job specific training
- Exponential-e sponsors staff who wish to acquire professional qualifications (such as ACCA)

The company employs both internal and external trainers to run these courses

### Disabled persons

The company operates on an equal opportunities basis regarding employees with disabilities, and has made sure that the main offices at Leman Street have full disabled access and disabled washroom facilities.

### Future developments

This has been included within the Strategic Report.

# Directors' Report

For the Year Ended 31 January 2016

## **Financial risk management**

This has been included within the Strategic Report.

## **Exposure to risk**

This has been included within the Strategic Report.

## **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

## **Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## **Post balance sheet events**

There have been no significant events affecting the Company since the year end.

## **Auditors**

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

## **Directors' Report**

**For the Year Ended 31 January 2016**

### **Corporate governance**

The Board of directors, so far as is practicable and to the extent appropriate, having regard for the size of the company, intends to continue to comply with the main provisions of the principles of good corporate governance.

The Board holds regular meetings and is responsible for formulating, reviewing and approving the company's strategy, budgets, and major items of capital expenditure, key personnel appointments and key performance indicators. The company's financial key performance indicators include revenue, gross profit, operating profit, cash balances, borrowings and total contracted revenues.

The non-financial key performance indicators include new business sign-ups, contract renewals and contract cancellations as well as network performance, provisioning times and customer satisfaction.

Finally, we operate the business within a disciplined managerial structure with procedural safeguards and counterchecks in accordance with our banking covenants and our commitment to three separate ISO standards:

#### **ISO 9001:2008 Quality Management**

ISO 9001:2008 is one of the most sought after 'good corporate governance' accreditations. It is recognised globally for providing Quality Assured service to our customers.

#### **ISO 27001 Information Security Management**

We are accredited to ensure our customers' information is managed with levels of confidentiality, security and integrity.

#### **ISO 20000 IT Service Management**

Exponential-e provide world-class IT Service Management to our customers.

This report was approved by the board on 11 May 2016 and signed on its behalf.



**M R Field**  
Director



## Independent Auditor's Report to the Shareholders of Exponential-e Limited

We have audited the financial statements of Exponential-e Limited for the year ended 31 January 2016, which comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and related notes, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 Auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



## Independent Auditor's Report to the Shareholders of Exponential-e Limited

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the directors' report has been prepared in accordance with applicable legal requirements.

### **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
- the 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.

A handwritten signature in black ink, appearing to read "Grant Thornton UK LLP", with a horizontal line drawn underneath.

Simon Bevan (Senior statutory auditor)

for and on behalf of

**Grant Thornton UK LLP**

Chartered Accountants  
Statutory Auditor

Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

11 May 2016

## Statement of Comprehensive Income

For the Year Ended 31 January 2016

|                                                | Note | 2016<br>£         | 2015<br>£         |
|------------------------------------------------|------|-------------------|-------------------|
| Turnover                                       |      | 77,338,579        | 60,602,378        |
| Cost of sales                                  |      | (36,415,936)      | (28,119,863)      |
| <b>Gross profit</b>                            |      | <b>40,922,643</b> | <b>32,482,515</b> |
| Administrative expenses                        |      | (33,918,767)      | (27,655,000)      |
| <b>Operating profit</b>                        |      | <b>7,003,876</b>  | <b>4,827,515</b>  |
| Interest receivable and similar income         |      | 1                 | 445               |
| Interest payable and expenses                  | 8    | (289,117)         | (255,275)         |
| <b>Profit before tax</b>                       |      | <b>6,714,760</b>  | <b>4,572,685</b>  |
| Tax on profit                                  | 9    | (957,061)         | (721,090)         |
| <b>Profit for the year</b>                     |      | <b>5,757,699</b>  | <b>3,851,595</b>  |
| <b>Other comprehensive income for the year</b> |      |                   |                   |
| <b>Total comprehensive income for the year</b> |      | <b>5,757,699</b>  | <b>3,851,595</b>  |

All amounts relate to continuing operations.

There were no recognised gains and losses for 2016 or 2015 other than those included in the income statement.

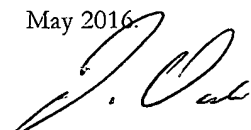
The notes on pages 13 to 27 form part of these financial statements.

## Statement of Financial Position

As at 31 January 2016

|                                                         | Note | 2016<br>£                | 2015<br>£                |
|---------------------------------------------------------|------|--------------------------|--------------------------|
| <b>Fixed assets</b>                                     |      |                          |                          |
| Intangible assets                                       | 10   | 220,000                  | 366,667                  |
| Tangible assets                                         | 11   | 27,360,902               | 23,164,787               |
|                                                         |      | <u>27,580,902</u>        | <u>23,531,454</u>        |
| <b>Current assets</b>                                   |      |                          |                          |
| Stocks                                                  | 12   | 711,640                  | 75,721                   |
| Debtors: amounts falling due within one year            | 13   | 16,658,652               | 14,104,839               |
| Cash at bank and in hand                                | 14   | 733,366                  | 153,169                  |
|                                                         |      | <u>18,103,658</u>        | <u>14,333,729</u>        |
| Creditors: amounts falling due within one year          | 15   | (7,216,116)              | (8,315,095)              |
| <b>Net current assets</b>                               |      | <u>10,887,542</u>        | <u>6,018,634</u>         |
| <b>Total assets less current liabilities</b>            |      | <u>38,468,444</u>        | <u>29,550,088</u>        |
| Creditors: amounts falling due after more than one year | 16   | (7,250,000)              | (6,250,000)              |
| <b>Provisions for liabilities</b>                       |      |                          |                          |
| Deferred tax                                            |      | (457,299)                | (289,201)                |
|                                                         |      | <u>(457,299)</u>         | <u>(289,201)</u>         |
| Deferred income                                         | 20   | (12,627,655)             | (9,971,656)              |
| <b>Net assets</b>                                       |      | <u><u>18,133,490</u></u> | <u><u>13,039,231</u></u> |
| <b>Capital and reserves</b>                             |      |                          |                          |
| Called up share capital                                 | 21   | 54,037                   | 53,364                   |
| Share premium account                                   | 22   | 783,547                  | 750,587                  |
| Profit and loss account                                 | 22   | 17,295,906               | 12,235,280               |
| <b>Shareholders' funds</b>                              |      | <u><u>18,133,490</u></u> | <u><u>13,039,231</u></u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 11 May 2016.



**L F Wade**  
Director

The notes on pages 13 to 27 form part of these financial statements.

## Statement of Changes in Equity

As at 31 January 2016

|                                                     | Share capital | Share premium  | Retained earnings | Total equity      |
|-----------------------------------------------------|---------------|----------------|-------------------|-------------------|
|                                                     | £             | £              | £                 | £                 |
| At 1 February 2015                                  | 53,364        | 750,587        | 12,235,280        | 13,039,231        |
| Profit for the year                                 | -             | -              | 5,757,699         | 5,757,699         |
| <b>Total comprehensive income for the year</b>      | -             | -              | 5,757,699         | 5,757,699         |
| <b>Contributions by and distributions to owners</b> |               |                |                   |                   |
| Dividends: Equity capital                           | -             | -              | (697,073)         | (697,073)         |
| Shares issued during the year                       | 673           | 32,960         | -                 | 33,633            |
| <b>At 31 January 2016</b>                           | <b>54,037</b> | <b>783,547</b> | <b>17,295,906</b> | <b>18,133,490</b> |

## Statement of Changes in Equity

As at 31 January 2015

|                                                | Share capital | Share premium  | Retained earnings | Total equity      |
|------------------------------------------------|---------------|----------------|-------------------|-------------------|
|                                                | £             | £              | £                 | £                 |
| At 1 February 2014                             | 53,364        | 673,373        | 8,917,326         | 9,644,063         |
| Profit for the year                            | -             | -              | 3,851,595         | 3,851,595         |
| <b>Total comprehensive income for the year</b> | -             | -              | 3,851,595         | 3,851,595         |
| Dividends: Equity capital                      | -             | -              | (533,641)         | (533,641)         |
| Shares issued during the year                  | -             | 77,214         | -                 | 77,214            |
| <b>At 31 January 2015</b>                      | <b>53,364</b> | <b>750,587</b> | <b>12,235,280</b> | <b>13,039,231</b> |

The notes on pages 13 to 27 form part of these financial statements.

## Statement of Cash Flows

For the Year Ended 31 January 2016

|                                                               | 2016<br>£           | 2015<br>£          |
|---------------------------------------------------------------|---------------------|--------------------|
| <b>Cash flows from operating activities</b>                   |                     |                    |
| Profit for the financial year                                 | 5,757,699           | 3,851,595          |
| <b>Adjustments for:</b>                                       |                     |                    |
| Amortisation of intangible assets                             | 146,667             | 73,333             |
| Depreciation of tangible assets                               | 6,440,923           | 4,874,893          |
| Loss on disposal of tangible assets                           | 244,044             | 393,041            |
| Decrease / (Increase) in stocks                               | (635,919)           | 39,854             |
| Interest paid                                                 | 289,117             | 255,275            |
| Interest received                                             | (1)                 | (445)              |
| Taxation                                                      | 957,061             | 721,090            |
| Increase in debtors                                           | (2,877,360)         | (6,246,192)        |
| Increase in creditors                                         | 1,500,900           | 2,666,566          |
| Corporation tax                                               | (857,295)           | (396,121)          |
| <b>Net cash generated from operating activities</b>           | <b>10,965,836</b>   | <b>6,232,889</b>   |
| <b>Cash flows from investing activities</b>                   |                     |                    |
| Purchase of intangible fixed assets                           | -                   | (440,000)          |
| Purchase of tangible fixed assets                             | (10,881,079)        | (8,804,192)        |
| Interest received                                             | 1                   | 445                |
| <b>Net cash from investing activities</b>                     | <b>(10,881,078)</b> | <b>(9,243,747)</b> |
| <b>Cash flows from financing activities</b>                   |                     |                    |
| Issue of ordinary shares                                      | 33,633              | 78,791             |
| Bank loans drawn                                              | 3,500,000           | 3,250,000          |
| Bank loans repaid                                             | (2,500,000)         | -                  |
| Repayment of/new finance leases                               | 284,565             | -                  |
| Dividends paid                                                | (533,641)           | (352,160)          |
| Interest paid                                                 | (289,117)           | (255,275)          |
| <b>Net cash used in financing activities</b>                  | <b>495,440</b>      | <b>2,721,356</b>   |
| <b>Net increase / (decrease) in cash and cash equivalents</b> | <b>580,198</b>      | <b>(289,502)</b>   |
| Cash and cash equivalents at beginning of year                | 153,169             | 442,671            |
| <b>Cash and cash equivalents at the end of year</b>           | <b>733,367</b>      | <b>153,169</b>     |
| <b>Cash and cash equivalents at the end of year comprise:</b> |                     |                    |
| Cash at bank and in hand                                      | 733,366             | 153,169            |

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 1. Accounting policies

### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 27.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

### 1.2 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax.

Turnover from network installations is recognised on completion of the installation and in the same period as the related costs. Turnover from network rental and maintenance/support is recognised evenly over the period in which the service is provided to the customer.

Deferred income comprises amounts invoiced to customers for services that had not been delivered by the balance sheet date.

### 1.3 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the income statement over its estimated economic life, taken to be the average length of contracts acquired as part of the transaction.

The estimated useful life of goodwill is 3 years.

### 1.4 Going concern

These financial statements have been prepared on a going concern basis. The directors have prepared cash flow projections for the period until 31 January 2018 and are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forecasts and projections, which take into account reasonable possible changes in trading performance, show that the Company will be able to operate within the level of the current facilities. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 1. Accounting policies (continued)

### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

The estimated useful lives range as follows:

|                                             |   |                    |
|---------------------------------------------|---|--------------------|
| Long term leasehold improvements            | - | Period of lease    |
| Network infrastructure                      | - | 12.5 - 25% on cost |
| Cloud computing assets and office equipment | - | 25% on cost        |

### 1.6 Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated amount, and an impairment loss is recognised immediately in the income statement.

If an impairment loss subsequently reverses, the carry amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

### 1.7 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the group. All other leases are classified as operating leases. Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the group recognises annual rent expense equal to amounts owed to the lessor. The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 1. Accounting policies (continued)

### 1.8 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

Work in progress consists of equipment purchased for projects that cross over the period end but which have not yet been handed over. These amounts are reversed out when the project is handed over.

### 1.9 Current and deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

### 1.10 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that 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 profit and loss account.

### 1.11 Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred.

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## **1. Accounting policies (continued)**

### **1.12 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

### **1.13 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions held on call. Cash equivalents are highly liquid investments that mature in no more than three months and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **1.14 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

### **1.15 Finance costs**

Finance costs are charged to the Income Statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

### **1.16 Borrowing costs**

All borrowing costs are recognised in the Income Statement in the year in which they are incurred.

### **1.17 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

### **1.18 Pensions**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

The group recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

### **1.19 Interest income**

Interest income is recognised in the Income Statement using the effective interest method.

## Notes to the Financial Statements

For the Year Ended 31 January 2016

### 1. Accounting policies (continued)

#### 1.20 Provisions for Liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Income Statement in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

### 2. Judgments in applying accounting policies and key sources of estimation uncertainty

The Directors have applied depreciation policies which are summarised in Note 1.5 and that they consider match the useful life of the assets as follows:

Network equipment is written off over 7 to 8 years, with items that are taken out of use being fully written off at this point (such as inactive circuits). The main core routers and switches can have a much longer life as they are covered by extended supplier maintenance contracts. Dark fibre assets can last even longer.

Equipment placed at the customers' premises is written off over 4 years to reflect the higher risk, however it is recovered if a customer cancels, and if a contract continues, its life will be extended.

All storage, compute and other cloud computing assets are written off over 4 years in order to match the pace of technology changes with these items.

### 3. Turnover

The turnover and profit on ordinary activities before taxation are attributable to the principal activity of the company and arose wholly within the United Kingdom.

## Notes to the Financial Statements

For the Year Ended 31 January 2016

**4. Operating profit**

The operating profit is stated after charging:

|                                                       | 2016<br>£ | 2015<br>£ |
|-------------------------------------------------------|-----------|-----------|
| Depreciation of tangible fixed assets                 | 6,440,923 | 4,874,893 |
| Amortisation of intangible assets, including goodwill | 146,667   | 73,333    |
| Difference on foreign exchange                        | 45,412    | 34,527    |
| Loss on disposal of fixed assets                      | 213,652   | 393,041   |
| Operating lease payments                              | 1,056,050 | 999,350   |

**5. Auditor's remuneration**

|                                                                                                         | 2016<br>£ | 2015<br>£ |
|---------------------------------------------------------------------------------------------------------|-----------|-----------|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts | 37,280    | 25,200    |
| Tax compliance services not included above                                                              | 7,000     | -         |
| All other taxation advisory services not included above                                                 | 5,856     | 6,200     |

**6. Employees**

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

|                       | 2016<br>£  | 2015<br>£  |
|-----------------------|------------|------------|
| Wages and salaries    | 18,617,924 | 15,455,604 |
| Social security costs | 2,220,790  | 1,783,839  |
| Other pension costs   | 432,219    | 331,643    |
|                       | 21,270,933 | 17,571,086 |

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

|                               | 2016<br>No. | 2015<br>No. |
|-------------------------------|-------------|-------------|
| Selling and distribution      | 140         | 115         |
| Operations                    | 147         | 119         |
| Management and administration | 59          | 57          |
|                               | 346         | 291         |

## Notes to the Financial Statements

For the Year Ended 31 January 2016

**7. Directors' remuneration**

|                                                               | 2016<br>£        | 2015<br>£        |
|---------------------------------------------------------------|------------------|------------------|
| Directors' emoluments                                         | 1,211,322        | 1,384,288        |
| Company contributions to defined contribution pension schemes | 19,870           | 28,765           |
|                                                               | <u>1,231,192</u> | <u>1,413,053</u> |

During the year retirement benefits were accruing to 4 directors (2015 -3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £247,673 (2015 -£280,987).

**8. Interest payable and similar charges**

|                       | 2016<br>£      | 2015<br>£      |
|-----------------------|----------------|----------------|
| Bank interest payable | <u>289,117</u> | <u>255,275</u> |

**9. Taxation**

|                                                  | 2016<br>£      | 2015<br>£       |
|--------------------------------------------------|----------------|-----------------|
| <b>Corporation tax</b>                           |                |                 |
| Current tax on profits for the year              | 566,262        | 896,398         |
| Adjustments in respect of prior periods          | 222,701        | (108,659)       |
| <b>Total current tax</b>                         | <u>788,963</u> | <u>787,739</u>  |
| <b>Deferred tax</b>                              |                |                 |
| Origination and reversal of timing differences   | 89,375         | (90,167)        |
| Adjustments in respect of prior periods          | 119,603        | 23,518          |
| Effect of tax change on opening balance          | (40,880)       | -               |
| <b>Total deferred tax (see note 16)</b>          | <u>168,098</u> | <u>(66,649)</u> |
| <b>Taxation on profit on ordinary activities</b> | <u>957,061</u> | <u>721,090</u>  |

## Notes to the Financial Statements

For the Year Ended 31 January 2016

**9. Taxation (continued)****Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20.16% (2015 - 21.32%). The differences are explained below:

|                                                                                                                  | 2016<br>£             | 2015<br>£             |
|------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Profit on ordinary activities before tax                                                                         | <u>6,714,760</u>      | <u>4,572,685</u>      |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.16% (2015 - 21.32%) | 1,353,806             | 970,676               |
| <b>Effects of:</b>                                                                                               |                       |                       |
| Fixed asset differences                                                                                          | 12,019                | 5,598                 |
| Expenses not deductible for tax purposes                                                                         | 19,391                | 19,365                |
| Capital allowances for year in excess of depreciation                                                            | -                     | (23,183)              |
| Additional deduction for R&D expenditure                                                                         | (273,442)             | (195,375)             |
| Adjustments to tax charge in respect of prior periods                                                            | (103,098)             | (108,659)             |
| Short term timing difference leading to a (decrease)/increase in taxation                                        | (51,615)              | 119,317               |
| Deferred tax                                                                                                     | -                     | (66,649)              |
| <b>Total tax charge for the year</b>                                                                             | <u><u>957,061</u></u> | <u><u>721,090</u></u> |

The tax rate for the current year is lower than the prior year as a result of changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015. Further reductions to the UK Corporation tax rates were enacted in November 2015. These reduce the main rate from 20% to 19% from 1 April 2017 and down to 18% from 1 April 2020.

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 10. Intangible assets

On 1 August 2014, Exponential-e acquired the trade, staff and contracts of Next Dimension Technology for £440,000. The entire consideration has been included as goodwill and amortised over three years.

|                           | Goodwill<br>£         |
|---------------------------|-----------------------|
| <b>Cost</b>               |                       |
| At 1 February 2015        | 440,000               |
| <b>At 31 January 2016</b> | <u>440,000</u>        |
| <b>Amortisation</b>       |                       |
| At 1 February 2015        | 73,333                |
| Charge for the year       | 146,667               |
| <b>At 31 January 2016</b> | <u>220,000</u>        |
| <b>Net book value</b>     |                       |
| <b>At 31 January 2016</b> | <u>220,000</u>        |
| At 31 January 2015        | <u><u>366,667</u></u> |

## Notes to the Financial Statements

For the Year Ended 31 January 2016

**11. Tangible fixed assets**

|                           | Long term<br>leasehold<br>improvements<br>£ | Network<br>infrastructure<br>£ | Office<br>equipment<br>£ | Total<br>£        |
|---------------------------|---------------------------------------------|--------------------------------|--------------------------|-------------------|
| <b>Cost or valuation</b>  |                                             |                                |                          |                   |
| At 1 February 2015        | 270,933                                     | 36,940,797                     | 742,146                  | 37,953,876        |
| Additions                 | 180,370                                     | 10,492,273                     | 208,437                  | 10,881,080        |
| Disposals                 | -                                           | (2,610,913)                    | -                        | (2,610,913)       |
| <b>At 31 January 2016</b> | <b>451,303</b>                              | <b>44,822,157</b>              | <b>950,583</b>           | <b>46,224,043</b> |
| <b>Depreciation</b>       |                                             |                                |                          |                   |
| At 1 February 2015        | 49,879                                      | 14,247,882                     | 491,328                  | 14,789,089        |
| Charge for the year       | 78,333                                      | 6,206,484                      | 156,105                  | 6,440,922         |
| Disposals                 | -                                           | (2,366,869)                    | -                        | (2,366,869)       |
| <b>At 31 January 2016</b> | <b>128,212</b>                              | <b>18,087,497</b>              | <b>647,433</b>           | <b>18,863,142</b> |
| <b>Net book value</b>     |                                             |                                |                          |                   |
| <b>At 31 January 2016</b> | <b>323,091</b>                              | <b>26,734,660</b>              | <b>303,150</b>           | <b>27,360,901</b> |
| At 31 January 2015        | 221,054                                     | 22,692,915                     | 250,818                  | 23,164,787        |

**12. Stocks**

|                                     | 2016<br>£      | 2015<br>£     |
|-------------------------------------|----------------|---------------|
| Finished goods and goods for resale | 189,798        | 75,721        |
| Work in Progress                    | 521,842        | -             |
|                                     | <b>711,640</b> | <b>75,721</b> |

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 13. Debtors

|                                | 2016<br>£         | 2015<br>£         |
|--------------------------------|-------------------|-------------------|
| Trade debtors                  | 11,416,802        | 9,222,028         |
| Other debtors                  | 192,850           | 1,658,811         |
| Prepayments and accrued income | 5,049,000         | 3,224,000         |
|                                | <u>16,658,652</u> | <u>14,104,839</u> |

An impairment loss of £238,859 (2015: 408,749) was recognised against trade debtors.

## 14. Cash and cash equivalents

|                          | 2016<br>£      | 2015<br>£      |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | <u>733,366</u> | <u>153,169</u> |

## 15. Creditors: Amounts falling due within one year

|                                    | 2016<br>£        | 2015<br>£        |
|------------------------------------|------------------|------------------|
| Trade creditors                    | 3,920,368        | 5,764,750        |
| Dividends payable                  | 697,074          | 533,641          |
| Corporation tax                    | 349,434          | 417,766          |
| Other taxation and social security | 729,652          | 624,194          |
| Other creditors                    | 391,575          | 93,217           |
| Accruals and deferred income       | 1,128,013        | 881,527          |
|                                    | <u>7,216,116</u> | <u>8,315,095</u> |

## 16. Creditors: Amounts falling due after more than one year

|            | 2016<br>£        | 2015<br>£        |
|------------|------------------|------------------|
| Bank loans | 7,250,000        | 6,250,000        |
|            | <u>7,250,000</u> | <u>6,250,000</u> |

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 17. Borrowings

The bank loans are secured by a fixed and floating charge over the assets held by the Company. The company has a £14m revolving credit facility which is repayable in July 2017. Interest is charged at 2.95% above LIBOR.

The company also has an overdraft facility of £1m, renewable in March 2017.

Analysis of the maturity of loans is given below:

|                                      | 2016<br>£        | 2015<br>£        |
|--------------------------------------|------------------|------------------|
| Repayable between two and five years | 7,250,000        | 6,250,000        |
|                                      | <u>7,250,000</u> | <u>6,250,000</u> |

## 18. Financial instruments

Financial assets measured at amortised cost were £12,343,018 (2015: £11,034,008) and financial liabilities measured at amortised cost were £13,387,030 (2015: £13,523,135).

## 19. Deferred taxation

|                               | Deferred tax<br>£       |
|-------------------------------|-------------------------|
| At 1 February 2015            | (289,201)               |
| Charged to the profit or loss | (168,098)               |
| <b>At 31 January 2016</b>     | <b><u>(457,299)</u></b> |

The provision for deferred taxation is made up as follows:

|                                | 2016<br>£      | 2015<br>£      |
|--------------------------------|----------------|----------------|
| Accelerated capital allowances | (473,468)      | (406,688)      |
| Short term timing differences  | 16,169         | 117,487        |
|                                | <u>457,299</u> | <u>289,201</u> |

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 20. Deferred income

|                 | 2016<br>£           | 2015<br>£          |
|-----------------|---------------------|--------------------|
| Deferred income | (12,627,655)        | (9,971,656)        |
|                 | <u>(12,627,655)</u> | <u>(9,971,656)</u> |

## 21. Share capital

|                                                          | 2016<br>£     | 2015<br>£     |
|----------------------------------------------------------|---------------|---------------|
| <b>Allotted, called up and fully paid</b>                |               |               |
| 1,028,663 Ordinary 'A' shares of £0.05 each              | 51,433        | 51,433        |
| 52,070 (2015 - 38,620) Ordinary 'B' shares of £0.05 each | 2,604         | 1,931         |
|                                                          | <u>54,037</u> | <u>53,364</u> |

During the year, 13,453 share options were exercised (2015 - 31,516) and 13,453 Ordinary 'B' shares were issued at a premium of £2.45 each.

At 31 January 2016, options over 8,233 (2015 - nil) Ordinary A shares were outstanding under the Company Share Option Plan an approved option scheme. These can be exercised at a price of £7.20. These expire during 2025. The directors do not consider the fair value of these options to be material to the company.

At 31 January 2016, options over 24,381 (2015 - 43,344) Ordinary B shares were outstanding under the Enterprise Management Incentive Scheme and an un-approved option scheme. These can be exercised at a price of £2.50. These expire between 2016 and 2022. The directors do not consider the fair value of these options to be material to the company.

Ordinary 'A' shares carry one voting right per share and all shares rank pari passu for dividends and other distributions. Ordinary 'B' shares are non-voting ordinary shares.

## 22. Reserves

### Share premium

This includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

### Profit & loss account

This includes all current and prior period retained profits and losses.

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## 23. Dividends

|                                                                    | 2016<br>£      | 2015<br>£      |
|--------------------------------------------------------------------|----------------|----------------|
| Dividends declared during the year £0.645 (2015 - £0.50) per share | <u>697,073</u> | <u>533,641</u> |

## 24. Capital commitments

There were no capital commitments at 31 January 2016 or 31 January 2015.

## 25. Retirement benefits

The Company operates a defined contribution pension scheme for the benefit of employees. The assets of the scheme are administered by trustees in a fund independent from those of the Company. The contributions payable by the company to the scheme during the year amounted to £432,219 (2015 - £331,643). At 31 January 2016, £89,823 (2015 - £73,672) was owing to the scheme from the Company.

## 26. Commitments under operating leases

At 31 January 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

|                         | 2016<br>£        | 2015<br>£      |
|-------------------------|------------------|----------------|
| <b>Expiry date:</b>     |                  |                |
| Within 1 year           | 3,298,547        | 1,280,419      |
| Between 2 and 5 years   | 11,823,701       | 2,458,384      |
| After more than 5 years | <u>1,592,252</u> | <u>460,947</u> |

## 27. Related party transactions

During the year, the Company undertook the following transactions with Desyfield Limited, a Company in which Mr M Field, a director, has a 50% interest. All transactions took place under normal commercial terms.

The Company was charged £163,242 (2015 - £162,206) for services provided. Desyfield Limited made purchases from the Company of £1,677 (2015 - £1,677) during the year. The balance outstanding as at 31 January 2016 of £18,298 (2015 - £17,312) is included within creditors.

Key management personnel compensation for the year was £1,374,564 (2015: £1,575,259).

# Notes to the Financial Statements

For the Year Ended 31 January 2016

## **28. First time adoption of FRS 102**

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.