

AdEPT Telecom Plc

("AdEPT" or the "Company")

Interim results for the 6 months ended 30 September 2009

AdEPT, a leading independent provider of award-winning telecommunications services for landline calls, line rental, mobile and data connectivity, announces its results for the 6 months ended 30 September 2009.

Highlights

Financial

- Underlying EBITA increased by 4.5% to £1.8 million (2008: £1.7 million)
- Underlying operating profit before non-recurring costs, depreciation and amortisation increased to £1.9 million (2008: £1.8 million)
- Underlying EBITDA margin increased to 14.5% (2008: 12.5%)
- Gross margin increased to 37.0% (2008: 35.6%)
- Free cash flow of £0.9 million generated, of which £0.3 million absorbed by one-off restructuring costs
- Net debt reduced by £0.6 million to £10.2 million (March 2009: £10.8 million)
- Reported operating profit increased by £0.5 million to £0.4 million (2008: loss of £0.1 million)

Operational

- Fixed fee revenues increased to 47.1% of total revenue (2008: 41.7%)
- Data product revenues increased by 62.5% to £0.5 million (2008: £0.3 million)
- Customer cash collection periods reduced to 29 days (2008: 32 days)
- Bad debt charges more than halved at £146,000 (2008: £339,000)
- Underlying operating costs reduced to 22.6% of revenue (2008: 23.0%)

Chairman's Statement

We are concentrating on improving profitability to generate cash and pay down our debt as soon as practical. We are pleased to report that underlying EBITDA is now one of the highest in our sector at 14.5%, through our focus on improving margins on customer contracts, operational efficiencies and tighter credit control. Despite the challenging economic conditions the Company has continued to be highly cash generative, with £0.9 million of free cash flow, funding £0.3 million of restructuring costs and £0.6 million reduction in net debt.

Our drive to improve margins on customer contracts has seen gross margins increase from 35.6% to 37.0%. We continue to focus on larger customers and average spend per customer has increased by 5.5%.

Strong cost control has resulted in operating expenditures falling from 23.0% of revenue at September 2008 to 22.6% in the current period.

Lower economic activity has been reflected in reduced call volumes. In addition, non paying customers have been disconnected as part of our drive to reduce bad debt and we are pleased to report that bad debt provisions have been more than halved compared to the same period last year, £146,000 compared to £339,000. In March 2009 we reported that debtor days had been reduced from 53 days at March 2008 to 34 days at March 2009; the first half of the year has seen further progress with debtor days now reduced to 29 days at September 2009.

Business review

We have now completed the roll-out of a 3,000+ site data network and this is reflected in the 62.5% increase in data revenues. Since the end of the period we have been awarded a contract to install another 800+ sites.

We firmly believe in increasing the number of products sold to each customer and our concentration on cross-sell has seen the proportion of our revenue generated by customers taking three of our products rise from 8.0% last year to 13.3% in this period.

Our exposure to variable call volumes has been reduced with the proportion of revenue generated from fixed monthly fees increasing from 41.7% to 47.1% year-on-year.

Outlook

The past year has seen a highly challenging economic environment in which the Company has rightly focussed on efficiency improvement and continued debt reduction, therefore the Company will be in a stronger position when the economic recovery gets under way.

Finally, I would like to offer my sincere appreciation to our customers, our staff and our business partners for their commitment and support to AdEPT and I look forward to continuing to work together with them in the future.

Roger Wilson
17 November 2009

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UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended		<i>Restated</i>
		30 September 2009 £'000	30 September 2008 £'000	<i>Year ended 31 March 2009 £'000</i>
REVENUE	5	13,008	14,762	28,567
Cost of sales		(8,195)	(9,508)	(18,226)
GROSS PROFIT		4,813	5,254	10,341
Administrative expenses		(4,371)	(5,358)	(10,451)
OPERATING PROFIT/(LOSS)		442	(104)	(110)
Total operating profit – analysed:				
Operating profit before non-recurring costs, depreciation and amortisation		1,881	1,849	3,516
Non-recurring costs		(266)	(777)	(1,314)
Share based payments		(11)	(9)	(26)
Depreciation of tangible fixed assets		(54)	(100)	(160)
Amortisation of intangible fixed assets		(1,108)	(1,067)	(2,126)
Total operating profit/(loss)		442	(104)	(110)
Finance costs		(664)	(585)	(1,294)
Finance income		-	1	1
LOSS BEFORE INCOME TAX		(222)	(688)	(1,403)
Income tax expense		(130)	(14)	162
LOSS FOR THE PERIOD		(352)	(702)	(1,241)
Attributable to:				
Equity holders of the parent		(352)	(702)	(1,241)
Earnings per share				
Basic earnings per share (pence)	3	(1.7)p	(3.3)p	(5.9)p
Diluted earnings per share (pence)	3	N/a	N/a	N/a
Adjusted earnings per share, after adding back amortisation and non-recurring costs				
Basic earnings per share (pence)	3	4.9p	5.4p	10.4p
Diluted earnings per share (pence)	3	4.3p	4.7p	8.7p

UNAUDITED CONSOLIDATED BALANCE SHEET

	30 September 2009 £'000	30 September 2008 £'000	<i>31 March 2009 £'000</i>
ASSETS			
Non-current assets			
Intangible assets	19,517	21,467	<i>20,532</i>
Property, plant and equipment	93	187	<i>135</i>
Deferred income tax	738	679	<i>799</i>
	20,348	22,333	<i>21,466</i>
Current assets			
Trade and other receivables	2,994	3,812	<i>3,218</i>
Income tax receivable	-	-	<i>50</i>
Cash and cash equivalents	607	63	<i>733</i>
	3,601	3,875	<i>4,001</i>
Total assets	23,949	26,208	<i>25,467</i>
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	4,774	5,879	<i>5,288</i>
Borrowings	1,579	1,712	<i>1,474</i>
Income tax	76	67	<i>-</i>
	6,429	7,658	<i>6,762</i>
Non-current liabilities			
Borrowings	9,259	9,427	<i>10,103</i>
Total liabilities	15,688	17,085	<i>16,865</i>
Equity attributable to shareholders of the parent			
Share capital	2,107	2,107	<i>2,107</i>
Share premium	7,965	7,965	<i>7,965</i>
Retained earnings	(1,811)	(949)	<i>(1,470)</i>
Total equity and liabilities	23,949	26,208	<i>25,467</i>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent			
	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2008	2,107	7,965	(256)	9,816
Loss for six months ended 30 September 2008	-	-	(702)	(702)
Share based payments	-	-	9	9
Total recognised income and expense for the six months to 30 September 2008	-	-	(693)	(693)
Balance at 30 September 2008	2,107	7,965	(949)	9,123
Loss for six months ended 31 March 2009	-	-	(538)	(538)
Share based payments	-	-	17	17
Total recognised income and expense for the six months to 31 March 2009	-	-	(521)	(521)
Balance at 31 March 2009	2,107	7,965	(1,470)	8,602
Loss for six months ended 30 September 2009	-	-	(352)	(352)
Share based payments	-	-	11	11
Total recognised income and expense for the six months to 30 September 2009	-	-	(341)	(341)
Balance at 30 September 2009	2,107	7,965	(1,811)	8,261

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended		Year ended
	30 September	30 September	31 March
	2009	2008	2009
	£'000	£'000	£'000
Cash flows from operating activities			
Adjusted profit/(loss) before income tax	44	92	(89)
Non-recurring costs	(266)	(780)	(1,314)
Depreciation and amortisation	1,162	1,167	2,286
Profit on sale of fixed assets	-	-	(1)
Share based payments	12	10	27
Net finance costs	664	585	1,293
Decrease in trade and other receivables	26	493	787
Decrease in trade and other payables	(460)	(111)	(920)
Cash generated from operations	1,182	1,456	2,069
Income taxes received/(paid)	58	(16)	(79)
Net cash from operating activities	1,240	1,440	1,990
Cash flows from investing activities			
Interest received	-	1	1
Interest paid	(466)	(586)	(995)
Purchase of intangible assets	(94)	(607)	(762)
Purchase of property, plant and equipment	(12)	(7)	(14)
Net cash used in investing activities	(572)	(1,199)	(1,770)
Cash flows from financing activities			
Repayment of finance leases	(5)	(22)	(47)
Repayment of borrowings	(789)	(511)	(1,350)
Increase of bank loan	-	200	1,755
Net cash (used in)/from financing activities	(794)	(333)	358
Net increase/(decrease) in cash and cash equivalents	(126)	(92)	578
Cash and cash equivalents at beginning of period/year	733	155	155
Cash and cash equivalents at end of period/year	607	63	733
Cash at bank and in hand	607	63	733
Bank overdrafts	-	-	-
Cash and cash equivalents	607	63	733

ACCOUNTING POLICIES

1 Nature of operations and general information

AdEPT Telecom plc is one of the UK's leading independent providers of voice and data telecommunications services with award winning customer service. The Group is focused on delivering a complete telecommunications service for small and medium sized business customers with a targeted product range including landline calls, line rental, broadband, mobile and data connectivity services.

AdEPT Telecom plc is the Group's ultimate parent Company and is incorporated and domiciled in the UK. The Company's shares are listed on AIM of the London Stock Exchange.

The financial information set out in this interim report which has not been audited, does not constitute statutory accounts as defined in Sections 434(3) and 435(3) of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 March 2009, prepared under International Financial Reporting Standards, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2 Basis of preparation and summary of significant accounting policies

Basis of preparation

The interim consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU as issued by the International Accounting Standards Board and in particular Interim Financial Reporting.

The interim consolidated financial statements have been prepared under the historical cost convention and on the same basis as the most recent annual financial statements prepared to 31 March 2009. The measurement bases and principal accounting policies of the Group are set out below.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2009. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Company and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets (including intangibles) of the acquired subsidiary at the date of acquisition.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risks and rewards of ownership to the customer.

Revenue comprises of both invoiced and un-invoiced amounts for performance of network services supplied by the Group during the year. The network services, which include call revenues (billing for call minutes) and fixed charges such as line rental or broadband, are generally billed monthly in arrears. The revenue is recognised in the month to which the calls relate. Revenue from mobile commissions is recognised when the customers are

connected to the relevant network.

Non-recurring costs

Material and non-recurring items of income and expense are separated out in the income statement. Examples of items which may give rise to disclosure as non-recurring items include costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses and asset impairments. Non-recurring costs include the current year expense charged to the income statement in relation to restructuring which has taken place since the year end to derive the underlying profitability of the Group and Company.

Investments

Shares in the Subsidiaries are valued at cost less provision for permanent impairment.

Intangible assets acquired as part of a business combination and amortisation

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Intangible fixed assets continue to be subject to an impairment review on the first anniversary after acquisition, when appropriate lives are selected.

The intangible asset "customer base" is amortised to the income statement over its estimated economic life. The average estimated useful economic life of all the acquisitions has been estimated at 14 years (2008: 12 years). The amortisation charge in the income statement for the 6 months ended 30 September 2009 includes impairment charges of £222,045.

Other intangible assets

Also included within intangible fixed assets are the development costs of the Group's billing and customer management system plus an individual licence. These other intangible assets are stated at cost, less amortisation and any provision for impairment. Amortisation is provided at rates calculated to write off the cost, less estimated residual value of each intangible asset, over its expected useful life on the following bases:

Customer management system	-	3 years straight line
Other licences	-	Contract licence period

Property plant and equipment

Property plant and equipment are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all property plant and equipment at rates calculated to write off the cost, less estimated residual value of each asset, over its expected useful life on the following bases:

Short term leasehold improvements	-	5 years straight line
Fixtures and fittings	-	3 years straight line
Office equipment	-	3 years straight line
Computer software	-	3 years straight line

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease or hire purchase obligation is treated in the balance sheet as a liability.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals under operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss on a straight line basis, even if payments are not made on such a basis.

Income tax

Income tax is the tax currently payable based on taxable profit for the year.

Deferred income tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred income tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

The hive up of intangible assets between Group companies is not considered a business combination under IFRS 3 (Business Combinations) and therefore deferred income tax is not provided on the intangible customer base asset thus acquired by AdEPT Telecom plc.

Deferred income tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred income tax assets.

Deferred income tax liabilities are provided in full, with no discounting. Deferred income tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred income tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred income tax assets or liabilities are recognised as a component of income tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred income tax is also charged or credited directly to equity.

Pensions

The group contributes to personal pension plans. The amount charged to the income statement in respect of pension costs is the contribution payable in the year.

Capital instruments

The costs incurred directly in connection with the issue of debt instruments are charged to the income statement on a straight line basis over the life of the debt instrument.

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date, the cumulative expense (as above) is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group makes use of derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value, i.e. cost. Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement as a component of financing income or cost.

The fair value of the derivative financial instrument is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date, taking into account current interest rates and the current creditworthiness of the instrument counterparties.

Interest rate risk

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep at least 75% of its borrowings at fixed rates of interest. At 30 September 2009, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are at a fixed rate of interest (2008: 72%).

Credit risk

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is deemed to be limited.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 September 2009 was £3,601,121 (2008: £3,874,387).

Liquidity risk

The Group has an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity risk management requirements. The Group manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities through cash flow forecasting, acquisition planning and monitoring working capital and capital expenditure requirements on an ongoing basis.

Currency risk

AdEPT's operations are handled entirely in sterling.

Significant accounting judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year are discussed below.

- **Impairment of intangible assets**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the intangible value is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

- **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses and other timing differences to the extent that it is more likely than not that taxable profit will be available against which the losses and other timing differences can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with

future tax planning strategies.

- **Share-based payment**

The estimation of the fair value of share options and other equity instruments at the date of grant requires management to make estimates concerning the number of employees likely to exercise their options together with the expected volatility and dividends payable on the underlying shares.

- **Receivables**

Debts are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

3 Earnings per share

	Six months ended		<i>Year ended 31 March 2009 £'000</i>
	30 September 2008 £'000	Restated 30 September 2007 £'000	
Earnings for the purposes of basic and diluted earnings per share			
Loss for the period attributable to equity holders of the parent	(352)	(702)	(1,241)
Amortisation	1,108	1,067	2,126
Non-recurring costs	266	777	1,314
Adjusted profit attributable to equity holders of the parent, adding back amortisation and non-recurring costs	1,022	1,142	2,199
Number of shares			
Weighted average number of shares used for earnings per share	21,067,443	21,067,443	21,067,443
Dilutive effect of share plans	2,955,084	3,063,046	4,151,259
Diluted weighted average number of shares used to calculate fully diluted earnings per share	24,022,527	24,130,489	25,218,702
Earnings per share			
Basic earnings per share (pence)	(1.7)p	(3.3)p	(5.9)p
Fully diluted earnings per share (pence)	N/a	N/a	N/a
Adjusted earnings per share, after adding back amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	4.9p	5.4p	10.4p
Adjusted fully diluted earnings per share (pence)	4.3p	4.7p	8.7p

Earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the profit attributable to equity holders of the parent (after

adding back amortisation) by the weighted average number of ordinary shares in issue.

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by existing share options, assuming dilution through conversion of all existing options. The adjustment for the dilutive effect of share options in the six months ended 30 September 2009 and 2008 and year to 31 March 2008 has not been reflected in the calculation of the diluted loss per shares as the effect would be anti-dilutive.