

## **Claranet Limited**

Report and Financial Statements

Year Ended

30 June 2012

Company Number 3152737

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# **Claranet Limited**

## **Report and financial statements for the year ended 30 June 2012**

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### **Directors**

C Nasser  
M Robert

### **Secretary and registered office**

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

### **Company number**

3152737

### **Auditors**

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

# **Claranet Limited**

## **Report of the directors for the year ended 30 June 2012**

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The directors present their report together with the audited financial statements for the year ended 30 June 2012

### **Principal activity and business review**

Claranet Limited is part of the Claranet Group and operates in the UK, with two offices in London and an office in Warrington, Cheshire. The Claranet Group of companies operates in five additional countries: France, Germany, Spain, Portugal and Netherlands and the total Group, including the UK, employs the equivalent of 495 full-time staff and has revenue of approximately £70 million (2011 - £72 million).

The managed services provided by the Claranet are

#### **Application services**

- Managed website applications
- Managed email applications
- Database management

#### **Hosting services**

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

#### **Network services**

- Private network services
- Internet connectivity

During financial year 2012, Claranet Limited secured a number of important new, renewal and/or extension contracts, including DeVere Group, Circle Housing, Amnesty International, Connect Distribution, RNIB and Culina.

Claranet operates, under the Claranet SOHO brand, a business unit focussed on legacy customers. Claranet SOHO provides ADSL, mail and shared hosting services and represents less than 10% (2011 less than 10%) of revenue.

There has been continued focus on securing long-term contracts with customers and, as a result, the total contracted revenue for Claranet Ltd as at 30 June 2012 was in excess of £55 million, an increase of 13% over 2011 (2011- £47m).

Claranet continues to invest in the continual improvement of its people, processes and systems and has the following accreditations: ISO 9001 2008, ISO 27001 2005, ISO 20000 the Payment Card Industry Data Security Standard (PCI/DSS), Microsoft Gold Partner and is a VMware Premier Service Provider.

Claranet's Virtual Data Centre service, launched in November 2011, has received a number of industry awards including the European Award for Cloud Infrastructure at the 5th annual Datacentre Awards.

### **Future Developments**

The directors will continue to drive profitability through various sales and marketing initiatives, with emphasis on Claranet's integrated offerings which combine network, hosting and application management services.

# **Claranet Limited**

## **Report of the directors for the year ended 30 June 2012 (continued)**

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In addition, over the past several years, the Claranet Group has been working to evolve its processes and systems to improve service quality and operate more efficiently. This has resulted in an ongoing programme of replacing legacy systems by investing in new applications like Salesforce.com, ServiceNow and CA Technologies.

### **Acquisition of Star**

On 22 November 2012, the company completed the acquisition of the entire share capital of STH Limited and its operating entity Star Technology Services Limited ("Star"). Star is a UK-based business that provides managed network and hosting services to SME and enterprise businesses. The enterprise value was £55m, and the consideration was satisfied by a combination of cash and vendor loan notes.

Star was founded a few months before Claranet, in 1995. It has grown largely organically to a team of 240 with £50m in revenues today. Claranet and Star services overlap but also complement each other. The companies have similar market outlook, goals and company cultures.

### **Results and dividends**

Revenue for the year was £36.8m (2011 - £36.9m). The difference coming primarily from the renewal of network services at lower revenue balanced by additional hosting revenues. Gross margin for the year increased to 50% as compared to 49% in year ended 30 June 2011.

The Statement of Comprehensive Income, as presented on page 7, shows operating profit of £1.6m for the year ended 30 June 2012 (2011 - £2.1m).

There was a profit for the year before tax of £1.4m (2011 - £1.9m) and profit after taxation of £0.9m (2011 - £1.6m). The reduction in profit is attributed to the on-going investment in award winning new hosting services, specifically the Virtual Data Centre (VDC) service launched in November 2011. The deferred tax asset was reduced by £0.5m in the year (2011 - £0.4m) as a result of a movement in temporary differences (see note 8).

The carrying value of goodwill has been reviewed for impairment, and the Directors believe that no impairment is necessary.

The profit for the year has resulted in an increase in shareholder's funds to £20.2m (2011 - £19.4m).

The directors do not recommend the payment of a dividend (2011 - £Nil).

### **Financial risk management objectives and policies**

The company uses financial instruments such as cash, borrowings, receivables and payables in order to raise finance for the company'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 £1.0m.

#### **Interest risk**

The company does not have any material risk to movements in interest rates as it has no external loan finance apart from overdraft.

# **Claranet Limited**

## **Report of the directors for the year ended 30 June 2012 (continued)**

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### **Credit risk**

The principal credit risk for the company arises from its trade receivables. 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.

As at 30 June 2012, there were no material credit risk balances that were not provided for.

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

#### **Key performance indicators**

The directors of the company continue to review and manage both financial and non-financial KPIs on a regular basis. The non-financial KPIs include sales pipeline, order intake, cancellations, work in progress and the total contract value of customer base.

The financial KPIs include

- Gross margin (2012 – 50%, 2011 - 49%)
- EBITDA (2012 - £3.9m, 2011 - £4.6m)

### **Supplier Payment Policy**

Settlement of trade and other payables is in accordance with the Company's terms of trade established with our suppliers. The Company's creditor days at 30 June 2012 were 71 days (2011 - 62 days).

### **Employee involvement**

Claranet Limited employed 223 people in the UK at 30 September 2012 (the average for 2012 was 228 as compared to 218 for the year ended 30 June 2011). Information is provided to all employees regularly by means of ongoing management communication channels using written material, face-to-face meetings, workshops, regular postings to an intranet and video presentations.

Through regular bi-annual performance appraisals, employees are made aware of their contribution to the company. Additionally, each employee has a Personal Development Plan (PDP) which identifies training and development requirements for current and for future roles.

Claranet has been working with a charity partner, The Prince's Trust, and has supported them through a number of team building and fundraising activities. Claranet raised over £20k for The Prince's Trust in 2012.

### **Disabled persons**

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

### **Directors**

The directors of the company during the year were

C Nasser  
M Robert

# Claranet Limited

## Report of the directors for the year ended 30 June 2012 (*continued*)

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### 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 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 judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, 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 requirements of Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

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

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

### On behalf of the Board



M Robert  
Director

Date 30/11/12

# **Claranet Limited**

## **Independent auditor's report**

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### **TO THE MEMBERS OF CLARANET LIMITED**

We have audited the financial statements of Claranet Limited for the year ended 30 June 2012 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, 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 (IFRS) as adopted by the European Union.

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 Auditing Practices Board's (APB'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 APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **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 30 June 2012 and of the company's profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union,
- 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 Limited

## Independent auditor's report *(continued)*

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### 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

*bro up*

Julian Frost  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
W1U 7EU

30 November 2012

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



# Claranet Limited

## Statement of Comprehensive Income for the year ended 30 June 2012

	Note	2012 £000's	2011 £000's
Revenue		36,804	36,946
Cost of Sales		(18,567)	(18,862)
<b>Gross Profit</b>		<b>18,237</b>	<b>18,084</b>
Administrative Expenses	4	(16,657)	(15,954)
<b>Operating Profit</b>		<b>1,580</b>	<b>2,130</b>
Finance Expense	7	(162)	(202)
<b>Profit before Tax</b>		<b>1,418</b>	<b>1,928</b>
Taxation	8	(537)	(377)
<b>Profit and Total Comprehensive Income for the year</b>		<b>881</b>	<b>1,551</b>

All amounts relate to continuing activities

The notes on pages 11 to 30 form part of these financial statements

# Claranet Limited

## Statement of Financial Position at 30 June 2012

Company Number 3152737

	Note	2012 £000's	2012 £000's	2011 £000's	2011 £000's
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Intangibles	9	12,008		11,297	
Property, Plant and Equipment	10	3,664		3,580	
Other Receivables	12	16,355		14,028	
Deferred Tax Asset	21	<u>2,634</u>		<u>3,171</u>	
			34,661		32,076
<b>Current Assets</b>					
Trade and Other Receivables	12	4,689		5,031	
Cash and Cash Equivalents	13	<u>2,172</u>		<u>654</u>	
			6,861		5,685
<b>TOTAL ASSETS</b>			<u>41,522</u>		<u>37,761</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and Other Payables	14	<u>(9,335)</u>		<u>(8,350)</u>	
			(9,335)		(8,350)
<b>Non Current Liabilities</b>					
Other Payables	15	(6,761)		(4,478)	
Provisions	16	<u>(230)</u>		<u>(230)</u>	
			(6,991)		(4,708)
Deferred Revenue		<u>(4,963)</u>		<u>(5,351)</u>	
			(4,963)		(5,351)
<b>TOTAL LIABILITIES</b>			<u>(21,289)</u>		<u>(18,409)</u>
<b>Net Assets</b>					
			<b>20,233</b>		<b>19,352</b>
<b>CAPITAL AND RESERVES</b>					
Share Capital	22		250		250
Retained Earnings			19,983		19,102
<b>Total Equity</b>			<b>20,233</b>		<b>19,352</b>

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

Signed on behalf of the Board of Directors



M Robert  
Director

The notes on pages 11 to 30 form part of these financial statements

# Claranet Limited

## Statement of Cash Flows for the year ended 30 June 2012

	Note	2012 £000's	2012 £000's	2011 £000's	2011 £000's
<b>Cash flows from Operating Activities</b>					
Profit for the Year		881		1,551	
Adjustments for					
Depreciation	10	2,342		2,464	
Amortisation	9	45		-	
Finance Expense	7	162		202	
Taxation	8	537		377	
		<u>3,967</u>		<u>4,662</u>	
Increase in Trade and Other Receivables		(1,985)		(1,425)	
Increase/(decrease) in Trade and Other Payables		2,758		314	
Increase in Provisions		-		179	
				<u>179</u>	
<b>Net Cash Flows from Operating Activities</b>			<b>4,740</b>		<b>3,730</b>
<b>Cash flows from Investing Activities</b>					
Purchase of PPE		(22)		-	
Purchase of Intangibles		(757)		(229)	
				<u>(229)</u>	
<b>Net Cash used in Investing Activities</b>			<b>(779)</b>		<b>(229)</b>
<b>Cash flows from Financing Activities</b>					
Interest Paid	7	(162)		(202)	
Payment to Finance Lease Creditor		(2,281)		(2,344)	
				<u>(2,344)</u>	
<b>Net Cash Used in Financing Activities</b>			<b>(2,443)</b>		<b>(2,546)</b>
<b>Net Increase in Cash and Cash Equivalents</b>					
			<b>1,518</b>		<b>955</b>
<b>Cash and Cash Equivalents at beginning of year</b>					
			<b>654</b>		<b>(301)</b>
<b>Cash and Cash Equivalents at end of year</b>					
	13		<b>2,172</b>		<b>654</b>

The notes on pages 11 to 30 form part of these financial statements

# Claranet Limited

## Statement of Changes in Equity for the year ended 30 June 2012

	Share Capital £000's	Retained Earnings £000's	Total Equity £000's
Balance as at 1 July 2010	250	17,551	17,801
Total Comprehensive Income for the year	-	1,551	1,551
<b>Balance as at 30 June 2011</b>	<b>250</b>	<b>19,102</b>	<b>19,352</b>
Balance as at 1 July 2011	250	19,102	19,352
Total Comprehensive Income in the year	-	881	881
<b>Balance as at 30 June 2012</b>	<b>250</b>	<b>19,983</b>	<b>20,233</b>

The nature of each reserve is disclosed in note 23

The notes on pages 11 to 30 form part of these financial statements

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012

### 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.

#### ***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 IFRS").

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 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***

*New standards, amendments to published standards and interpretations to existing standards effective from 1 July 2011*

No new standards, amendments to published standards or interpretations of existing standards effective from 1 July 2011 had a material impact on the Reporting Entity's Financial Statements.

*Standards and interpretations issued but not yet effective*

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

- IFRS 9 Financial Instruments (issued 12 November 2009, not applicable until January 2013 and is available for early adoption) - this standard replaces IAS 39 and specifies how an entity should classify and measure financial assets, and as such may affect the Company's accounting for its financial assets. However, the Company is yet to assess its full impact.
- IFRS 13 Fair Value Measurement (Issued 12 May 2011, applicable from January 2013 and is available for early adoption) - this standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies, except in some specified cases (e.g. share-based payments) when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The Company will review its current valuation procedures and assess the impact, if any.
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Issued 16 December 2011, applicable from January 2013 and is available for early adoption) – this amendment introduces disclosures intended to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are either off-set as a result of the application of the requirements of IAS 32.42 or that are subject to an enforceable master netting arrangement or similar agreement, which is outside of the scope of that paragraph IAS 32. The Company is yet to assess its full impact.
- IAS 32 – Offsetting Financial Assets and Financial Liabilities (Issued 16 December 2011, applicable from January 2012 and is available for early adoption) - This Amendment to IAS 32

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (*continued*)

### 1 Accounting policies (*continued*)

#### ***Changes in Accounting Policies (continued)***

seeks to clarify rather than to change the off-setting requirements previously set out in IAS 32. The changes clarify the meaning of 'currently has a legally enforceable right of set-off', and that some gross settlement systems may be considered equivalent to net settlement. The Company is yet to assess its full impact.

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

#### ***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 Company will receive consideration. Service revenue is recognised when the sale 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 statement of comprehensive income over the relevant period.

The revenue and profit before tax are attributable to the one principal activity of the company and are derived entirely from UK operations.

#### ***Intangibles***

##### ***Goodwill***

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

##### ***Internally Generated Intangible Assets***

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

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

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

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (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 by equal annual instalments over their expected useful lives. The rates generally applicable are

Network and computer equipment	-	20% - 33% straight line
Fixtures and fittings	-	33% straight line
Motor vehicles	-	20% straight line

#### **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).

#### **Leased Assets**

Assets held under finance leases are capitalised at their fair value at inception of the lease and depreciated over the shorter of the period of the lease and the estimated life of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the income statement.

Operating lease rentals are charged to the income statement in equal amounts over the term of the lease.

#### **Financial Instruments**

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

##### **Financial Assets - Loans and Receivables**

###### **Cash and Cash Equivalents**

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

###### **Trade and Other Receivables**

Trade and other receivables do not carry interest and are stated at fair value on initial recognition, and then subsequently at amortised cost as reduced by appropriate allowances for estimated

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (*continued*)

### 1 Accounting policies (*continued*)

#### *Financial Instruments (continued)*

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

#### *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

#### *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

#### *Provisions*

The Company provides for costs to return the leasehold premises to the original state in the event that Claranet Limited vacates its offices The obligation, being of uncertain timing or amount at the Statement of Financial Position 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 Statement of Comprehensive Income, unless it related to items charged or credited directly to equity, in which case the deferred tax is also charged or credited to equity

#### *Retirement benefits schemes*

The Company contributes to defined contribution pensions plans of some employees at rates agreed between the Company and the employees Contributions are recognised as they become payable

#### *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 Statement of Comprehensive Income



# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (*continued*)

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### 2 Critical accounting estimates and judgements

The company 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*

The Company 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 9 for review performed).

#### *Deferred Tax*

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.

#### *Development Costs*

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.

#### *Property, Plant and Equipment*

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.

### 3 Financial Instruments

The Company is exposed to the following financial risks:

- Credit risk
- Interest risk
- Liquidity risk

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company'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 Company'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.

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 3 Financial Instruments (continued)

#### Principal financial instruments

The principal financial instruments used by the Company, 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 Company's financial instruments are carried at amortised cost

There is no material difference between the book 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 Company has overall responsibility of the Company'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 Company is to set policies that seek to reduce risk as far as possible, without unduly affecting the Company'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 Company's trade and other receivables. Potential customers are subjected to credit verification procedures before credit terms are granted. The quality of existing debt which has not been provided for is considered to be collectable, and procedures are in place to monitor trade receivables on an ongoing basis to minimize exposure to bad debts. Trade receivables are only written off once all methods of collection have been exhausted.

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

Trade receivables are summarised as follows

	2012 £000's	2011 £000's
Up to 30 days	2,523	2,641
30 to 90 days	737	899
More than 90 days	294	92
Gross	3,554	3,632
Less allowance for impairment	(172)	(143)
<b>Net</b>	<b>3,382</b>	<b>3,489</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 3 Financial Instruments (continued)

Allowance for impairment movement in the year

	2012 £000's	2011 £000's
As at 1 July	(143)	(136)
Provided in the year	(94)	(124)
Written off during the year	65	117
<b>As at 30 June</b>	<b>(172)</b>	<b>(143)</b>

#### b) Market risk

Market risk refers to fluctuations in interest rates and exchange rates

##### *Interest rate risk*

The Company does not have any risk to movements in interest rates

##### *Exchange rates*

The Company is exposed to exchange rate fluctuations with fellow Group overseas subsidiaries (which operate principally in Continental Europe) and with overseas trading partners. The Company reviews its exposure on an ongoing basis and to date the Company has not entered into any hedging or other derivative financial instruments relating to foreign currencies. The monetary assets and liabilities of the Company are held predominantly in sterling.

The Company'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.

#### c) Liquidity risk

Liquidity risk is the risk that the Company 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 Company 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. At the year end, all banking facilities were held with RBS plc. The Company believes that there will be no immediate call on its liabilities.

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 3 Financial Instruments (continued)

The table below analyses the 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.

	Up to 3 months	3 to 12 months	1 to 5 years	Total
As at 30 June 2012	£000's	£000's	£000's	£000's
Trade and other receivables	3,309	122	-	3,431
Amounts owed by immediate parent undertaking and fellow subsidiary undertaking	-	-	16,355	16,355
Cash and cash equivalents	2,172	-	-	2,172
Trade and other payables	(5,617)	(1,571)	-	(7,188)
Amounts owed to subsidiaries and fellow subsidiary undertakings	-	-	(5,339)	(5,339)
<b>Total</b>	<b>(136)</b>	<b>(1,449)</b>	<b>11,016</b>	<b>9,431</b>

	Up to 3 months	3 to 12 months	1 to 5 years	Total
As at 30 June 2011	£000's	£000's	£000's	£000's
Trade and other receivables	3,499	-	-	3,499
Amounts owed by immediate parent undertaking and fellow subsidiary undertaking	-	-	13,219	13,219
Cash and cash equivalents	654	-	-	654
Trade and other payables	(4,353)	(1,486)	-	(5,839)
Amounts owed to subsidiaries and fellow subsidiary undertakings	-	-	(2,944)	(2,944)
<b>Total</b>	<b>(200)</b>	<b>(1,486)</b>	<b>10,275</b>	<b>8,589</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 4 Expenses by nature

	2012 £000's	2011 £000's
Advertising and Marketing	349	256
Staff Costs (Note 5)	10,757	10,350
Other Staff Costs (including Contractor Costs)	541	666
Business Travel and Entertaining	153	186
Premises Costs	1,389	1,265
Other Administration Costs	1,081	767
Amortisation (Note 9)	45	-
Depreciation (Note 10)	2,342	2,464
<b>Total Administration Expenses</b>	<b>16,657</b>	<b>15,954</b>

Auditors Remuneration consists of

	2012 £000's	2011 £000's
Audit services	63	57
Taxation services	12	6
<b>Total Fees Payable</b>	<b>75</b>	<b>63</b>

### 5 Staff Costs

	2012 £000's	2011 £000's
Staff costs consist of		
Wages and salaries	9,301	9,060
Short-term non-monetary benefits	80	86
Social security costs	1,137	991
Defined contribution pension costs	240	213
<b>Total Staff Costs</b>	<b>10,757</b>	<b>10,350</b>

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

	2012	2011
Administration	35	32
Operations	193	186
	<u>228</u>	<u>218</u>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 6 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), Nigel Fairhurst (CFO) and Michel Robert (Managing Director)

	2012 £000's	2011 £000's
Remuneration consists of		
Wages and salaries	318	353
Defined contribution pension costs	11	10
<b>Total Key Management Personnel Costs</b>	<b>329</b>	<b>363</b>

Two members of the key management were remunerated for their services by Claranet Group Limited and their emoluments are disclosed in the table above in respect to services provided to the Company

The emoluments of the highest paid director were £291,000 (2011 - £291,000), excluding pension contributions

### 7 Finance Expense

	2012 £000's	2011 £000's
Interest payable on finance leases	162	188
Bank interest payable	-	14
<b>Total Finance Expense</b>	<b>162</b>	<b>202</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 8 Taxation

	2012 £000's	2011 £000's
<b>Analysis of tax expense</b>		
Current year tax	-	-
<b>Total current tax expense</b>	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(95)	(386)
Adjustment in respect of prior period losses	(441)	9
<b>Deferred tax (expense)/ credit</b>	<b>(537)</b>	<b>(377)</b>
<b>Total tax (expense)/ credit</b>	<b>(537)</b>	<b>(377)</b>
<b>Tax Expense Reconciliation</b>	<b>2012 £000's</b>	<b>2011 £000's</b>
Profit before taxation	1,418	1,928
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 25.5% (2011 – 27.5%)	362	530
Effect of		
Expenses not deductible for tax purposes	(13)	(33)
Group relief of current year losses	(258)	(358)
Movement in tax rates	228	247
Under provision in prior year	214	-
Adjustment in respect of prior period losses	-	(9)
Other differences	5	-
<b>Total tax expense/ (credit)</b>	<b>537</b>	<b>377</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 9 Goodwill and Intangibles

	Intangible £000's	Development £000's	Total £000's
<b>Cost</b>			
At 30 June 2011 and 1 July 2011	11,297	-	11,297
Additions - internally developed	-	756	756
<b>At 30 June 2012</b>	<b>11,297</b>	<b>756</b>	<b>12,053</b>
<b>Amortisation</b>			
At 30 June 2011 and 1 July 2012	-	-	-
Provided for the Year	-	45	45
<b>At 30 June 2012</b>	<b>-</b>	<b>45</b>	<b>45</b>
<b>Carrying Value at 30 June 2012</b>	<b>11,297</b>	<b>711</b>	<b>12,008</b>
<b>Carrying Value at 30 June 2011</b>	<b>11,297</b>	<b>-</b>	<b>11,297</b>

#### Goodwill Impairment Tests

In November 2007, as part of the reorganisation of the Group, the trades and assets of Netscalibur UK Ltd and U-Net UK Ltd were hived up into the company. The substance of these transactions was merely to rationalise the Group's operations and there was no change in the overall value of the businesses.

Goodwill is allocated to the cash generating units based on the Company's operations and the carrying value of each unit is set out below:

	2012 £000's	2011 £000's
Claranet Ltd, excluding Claranet Technology Group (CTG)	11,297	11,297

The smallest identifiable group of assets that generates cash inflows is Claranet Ltd, excluding Claranet Technology Group (CTG). The cashflows of Netscalibur Ltd and U-Net Ltd are not independently monitored by management, as the businesses have been merged with that of Claranet Ltd.

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

It was assumed in these calculations that the discount rate applied to future cash flows was 10% (2011 - 10%).



# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 9 Goodwill and Intangibles (continued)

Management have also applied reasonable sensitivities to the cash flow projections and discount rate and are satisfied that, as a result of these tests, the carrying value of the goodwill shows no indication of possible impairment in either period

### 10 Plant, Property and Equipment

	Network & Computer Equipment £000's	Fixtures & Fittings £000's	Motor Vehicles £000's	Total £000's
<b>Cost</b>				
At 1 July 2010	12,515	177	23	12,715
Additions	1,744	309	-	2,053
Disposals	(72)	-	-	(72)
<b>At 30 June 2011 and 1 July 2011</b>	<b>14,187</b>	<b>486</b>	<b>23</b>	<b>14,696</b>
Additions	2,404	22	-	2,426
<b>At 30 June 2012</b>	<b>16,591</b>	<b>508</b>	<b>23</b>	<b>17,122</b>
<b>Depreciation</b>				
At 1 July 2010	8,546	88	22	8,656
Provided for the Year	2,342	121	1	2,464
Depreciation on Disposals	(4)	-	-	(4)
<b>At 30 June 2011 and 1 July 2011</b>	<b>10,884</b>	<b>209</b>	<b>23</b>	<b>11,116</b>
Provided for the Year	2,232	110	-	2,342
<b>At 30 June 2012</b>	<b>13,116</b>	<b>319</b>	<b>23</b>	<b>13,458</b>
<b>Carrying Value at 30 June 2012</b>	<b>3,475</b>	<b>189</b>	<b>-</b>	<b>3,664</b>

The cost of assets held under finance leases, all of which are categorised as network and computer equipment, was £13.3m at 30 June 2012 (2011- £11.1m). The accumulated depreciation on these assets was £10.0m (2011 - £8.0m).

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 11 Investments

Investments  
in subsidiary  
undertakings  
£000's

Cost at 30 June 2012 and 30 June 2011

-

At 30 June 2012 the principal subsidiary undertakings are as follows.

Name	Country of Incorporation	Percentage of issued ordinary share capital held	Nature of business
Netscalibur Limited	United Kingdom	100%	Non trading
Netscalibur UK Limited *	United Kingdom	100%	Non trading
Netscalibur International Holdings Limited *	United Kingdom	100%	Non trading
Netscalibur UK Holdings Limited *	United Kingdom	100%	Non trading
U-Net UK Ltd	United Kingdom	100%	Non trading
Netlink Internet Services Limited ^	United Kingdom	100%	Non trading
I-Way Limited ^	United Kingdom	100%	Non trading
I-Way Oxford Limited ^	United Kingdom	100%	Non trading
U-Net Limited ^	United Kingdom	100%	Non trading
Worldwide Web Services Limited ^	United Kingdom	100%	Non trading

\* indirect shareholding through Netscalibur Limited

^ indirect shareholding through U- Net UK Ltd

### 12 Trade and Other Receivables

	2012 £000's	2011 £000's
Amounts falling due within one year		
Trade Receivables	3,554	3,632
Bad Debt Provision	(172)	(143)
<b>Trade Receivables</b>	<b>3,382</b>	<b>3,489</b>
Other Receivables	10	10
Prepayments and accrued income	1,297	1,532
<b>Other Receivables</b>	<b>1,307</b>	<b>1,542</b>
<b>Total Trade and Other Receivables due within one year</b>	<b>4,689</b>	<b>5,031</b>

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 nature of the amounts receivable, they are not subject to other on-going fluctuations in market rates

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 12 Trade and Other Receivables (continued)

	2012 £000's	2011 £000's
Amounts falling due in more than one year		
Other Receivables	-	809
Amounts owed by Immediate Parent Undertaking	12,850	12,244
Amounts owed by Fellow Subsidiary Undertakings	3,505	975
<b>Total Other Receivables due in more than one year</b>	<b>16,355</b>	<b>14,028</b>

### 13 Cash and Cash Equivalents

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

	2012 £000's	2011 £000's
Cash available on demand	2,172	654
<b>Total cash and cash equivalents</b>	<b>2,172</b>	<b>654</b>

Significant non cash transactions are as follows

	2012 £000's	2011 £000's
Assets acquired under finance leases	2,446	1,824

### 14 Trade and Other Payables due within one year

	2012 £000's	2011 £000's
Trade Payables	5,176	4,587
VAT	255	408
Taxation and Social Security	307	335
Other Payables	-	11
Finance Lease Creditor (Note 17)	1,585	1,768
Accruals	2,012	1,241
<b>Trade and Other Payables due within one year</b>	<b>9,335</b>	<b>8,350</b>

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.

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 15 Non-Current Liabilities

	2012 £000's	2011 £000's
Other Payables	755	461
Finance Lease Creditor (Note 17)	1,422	1,073
Amounts owed to Subsidiaries	1,506	1,506
Amounts owed to Fellow Subsidiary Undertakings	3,078	1,438
<b>Total Other Payables due in more than one year</b>	<b>6,761</b>	<b>4,478</b>

### 16 Provisions

	2012 £000's	2011 £000's
Opening balance as at 1 July	230	51
Increase of provision	-	221
Utilised during year	-	(42)
<b>Closing balance as at 30 June</b>	<b>230</b>	<b>230</b>

The provision represents dilapidation costs only. It represents costs to return the leasehold premises to the original state in the event that Claranet Limited vacates its offices. The obligation, being of uncertain timing or amount at the Statement of Financial Position date, is provided for on a best-estimate basis. The current lease is held until July 2020, with a break available in July 2015. The cost is recognised as depreciation of Fixtures and Fittings over the remaining term of the lease.

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 17 Finance Leases

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

	Minimum Lease Payments 2012 £000's	Interest 2012 £000's	Present Value 2012 £000's
Within one year	1,710	(125)	1,585
Later than one year and not later than five years	1,484	(62)	1,422
<b>Total Repayable</b>	<b>3,194</b>	<b>(187)</b>	<b>3,007</b>

	Minimum Lease Payments 2011 £000's	Interest 2011 £000's	Present Value 2011 £000's
Within one year	1,884	(116)	1,768
Later than one year and not later than five years	1,121	(48)	1,073
<b>Total Repayable</b>	<b>3,005</b>	<b>(164)</b>	<b>2,841</b>

### 18 Operating Lease Commitments

	Land and Buildings 2012 £000's	Land and Buildings 2011 £000's
Within 1 year	600	600
In 1 to 5 years	1,087	1,687
<b>Total Operating Leases</b>	<b>1,687</b>	<b>2,287</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 19 Related party transactions

Key management personnel remuneration is disclosed in Note 6

During the year the company provided loans and services to

	2012 £000's	2011 £000's
Claranet Benelux	66	113
Claranet France	1,286	102
Claranet Germany	232	-
Claranet Group Limited	605	1,141
Claranet Portugal	3	136
Claranet Spain	379	
Tagadab Limited	(243)	125
<b>Total Services Provided in year</b>	<b>2,328</b>	<b>1,617</b>

The following balances were receivable balances held with entities that are 100% owned by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Other Receivables due in more than one year

	2012 £000's	2011 £000's
Claranet Benelux	341	275
Claranet France	2,261	975
Claranet Germany	232	-
Claranet Group Limited	12,850	12,244
Claranet Portugal	292	290
Claranet Spain	378	-
Tagadab Limited	1	244
<b>Total Amount Owed</b>	<b>16,355</b>	<b>14,028</b>

During the year the company received loans and services from

	2012 £000's	2011 £000's
Claranet Benelux	(37)	(62)
Claranet France	(1,087)	-
Claranet Germany	(155)	(935)
Claranet Portugal	(73)	(26)
Claranet Spain	(398)	(29)
Tagadab Limited	(185)	(10)
<b>Total Services Received</b>	<b>(1,935)</b>	<b>(1,062)</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 19 Related party transactions (continued)

The following balances were payable balances held with entities that are 100% owned by its ultimate parent, Claranet Internet Holdings Limited. These balances are included within Other Payables due in more than one year

	2012 £000's	2011 £000's
Claranet Benelux	(298)	(261)
Claranet France	(1,087)	-
Claranet Germany	(1,418)	(1,263)
Claranet Portugal	(272)	(200)
Claranet Spain	(573)	(175)
I - Way Limited	(1,445)	(1,445)
Tagadab	(185)	-
U - Net Limited	(5)	(5)
World Wide Web Services	(56)	(56)
<b>Total Amount Owed</b>	<b>(5,339)</b>	<b>(3,405)</b>

### 20 Contingent liabilities

The company has contingent liabilities in the form of cross guarantees in respect of the borrowing of its immediate parent undertaking Claranet Group Limited

### 21 Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011 26%)

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 account is shown below

	2012 £000's	2011 £000's
Opening balance as at 1 July	3,171	3,549
Prior year adjustment	(214)	9
Current year (charge)/ credit	(95)	(133)
Movement in prior year balance due to changes in tax rate	(228)	(254)
<b>Closing balance as at 30 June</b>	<b>2,634</b>	<b>3,171</b>

# Claranet Limited

## Notes forming part of the financial statements for the year ended 30 June 2012 (continued)

### 21 Deferred Tax Asset (continued)

This asset is represented by

	2012	2011
	£000's	£000's
Provided deferred tax		
Accelerated capital allowances	2,514	2,886
Other timing differences	19	10
Trading losses	101	275
<b>Total Deferred Taxation Asset</b>	<b>2,634</b>	<b>3,171</b>

### 22 Share Capital

Allotted, Called Up and Fully Paid

	2012	2011	2012	2011
	Number	Number	£000's	£000's
Ordinary shares of £1 each	250,000	250,000	250	250

### 23 Reserves

The retained earnings reserve contains the net gains and losses recognised in the Statement of Comprehensive Income

### 24 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.

The Company's immediate Parent Undertaking is Claranet Group Limited

The directors consider the parent undertaking of the largest and smallest group, for which group financial statements are produced, to be Claranet Group Limited. This company is included in the consolidated financial statements of Claranet Group Limited, copies of which are available from Companies House.

### 25 Post Balance Sheet Event

On 22 November 2012, the company completed the acquisition of the entire share capital of STH Limited and its entity Star Technology Services Limited ("Star"). Star is a UK based business that provides managed network and hosting services to SME and enterprise businesses. The enterprise value was £55m and the consideration was satisfied by a combination of cash and vendor loan notes.