

Company registration number: 05643503

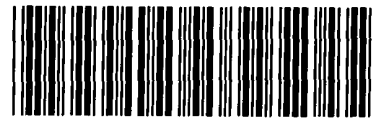
**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED

31 DECEMBER 2018

**ARROW BUSINESS
COMMUNICATIONS
LIMITED**

THURSDAY



A863EX7U

A22

23/05/2019

#222

COMPANIES HOUSE

MENZIES
BRIGHTER THINKING

ARROW BUSINESS COMMUNICATIONS LIMITED

COMPANY INFORMATION

Directors

Mr C J Russell
Mr P J Gibbons
Mrs T Tribe
Mr R E Burke
Mr J D Harber

Registered number

05643503

Registered office

1st Floor, The Wharf
Abbey Mill Business Park
Godalming
Surrey
GU7 2QN

Independent auditor

Menzies LLP
Chartered Accountants & Statutory Auditor
Lynton House
7-12 Tavistock Square
London
WC1H 9LT

Bankers

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

ARROW BUSINESS COMMUNICATIONS LIMITED

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4 - 5
Independent Auditor's Report	6 - 8
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 - 30

ARROW BUSINESS COMMUNICATIONS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Business review

The principal activity of the company (Arrow) during the year is a reseller of business services to SME and Corporate Customers throughout the UK.

The results of the company show a pre-tax profit of £2.98m (2017: £1.53m) for the year and sales of £22.1m (2017: £22.6m).

During the year, the Arrow Group accelerated its acquisition programme and has completed a further four acquisitions transforming the group's scale, nationwide coverage and product expertise.

In March 2018, Arrow acquired 100% of the equity of Reeves Lund and Company Limited, based in London. This is a boutique telecoms reseller with over 20 years experience providing a wide range of telecoms products and services to prestigious customers in the Corporate Sector. The integration of the business is complete and management are satisfied that the results are in line with our expectation. During the year this business was moved into a combined office with our two London acquisitions, providing the group with a stronger presence in the capital to service both telecoms and energy customers.

In June 2018, Arrow acquired 100% of 360 Solutions (UK) Limited, based in Burton upon Trent. 360 Solutions is a leading provider of telecoms and IT to the legal sector and works with a similar set of industry leading suppliers as Arrow. They have also built up a strong presence in other markets such as online retail, property development and recruitment. 360 Solutions has over 400 customers and has deployed a range of solutions covering unified communications, Skype for business, PCI compliant call-recording and IT networking and mobility solutions. The integration of the business is complete and management are satisfied that the results are in line with our expectation.

In December 2018, Arrow acquired 100% of Abica Limited, based in Glasgow and Aberdeen. Abica has over 650 customers and has deployed a range of solutions covering Connectivity, Mobility, IoT and Unified Communications for both private and public sector organisations. Abica itself had completed the acquisition of PCR IT limited during the year which had added further IT capability into its solution portfolio. Abica was our third acquisition in Scotland and will be integrated with our existing Scottish business to create a real Scottish powerhouse. The programme to integrate the Scottish businesses is well advanced post year end and initial results are in line with our expectations.

In December 2018, Arrow acquired 100% of European Utility Management Limited ("EUM") based in London. EUM was founded in 1998 and has successfully installed electricity and gas connection for temporary builders, landlord and commercial suppliers, energy centres and domestic plots. The company also assists customers to minimise costs through energy bulk purchasing and reducing energy consumption. The programme to integrate EUM into our existing Pulse business is well advanced post year end and initial results are in line with our expectations.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal control. Compliance with regulation, legal and ethical standards is a high priority for the company and the Finance Director and the finance team take an important oversight role in this regard.

The key business risks and uncertainties affecting the company are considered to relate to poor economic conditions, the associated risk of non-payment by customers and EU and Ofcom regulation changes. These are managed by strong credit control and vetting procedures, a robust commercial approval process for new contracts and re-signs and a portfolio approach to our product set, underpinned by the stability provided by long term customer contracts.

The directors do not consider that the company sales and results will be directly affected by Brexit, and we do not expect to be adversely affected by changes in the availability of suitably trained staff. We continue to keep the developments surrounding Brexit under review as we may see indirect effects due to impacts on our customers.

ARROW BUSINESS COMMUNICATIONS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Key performance indicators

The company's main key performance indicator is earnings before interest, tax, depreciation and amortisation (EBITDA). In 2018, the company achieved an EBITDA of £2.89m (2017: £3.36m).

The underlying performance of the Arrow Group was positive in 2018 and the directors consider the company results to be positive despite the reduction in EBITDA which is a reflection of more group costs being recorded in the Company's accounts in support of the growth of the group as a whole. The overall EBITDA performance of the group has been stellar in 2018 and the directors have focused on improving it rather than individual company reported performance in anticipation of the merger of various group companies in 2019.

Research and development

We continue to invest in our systems that provide billing and MIS for our customers. We are also keen to add any new technologies to our product offering once they become commercially viable. The directors regard the investment in research and development as integral to the continuing success of the business and ensuring we provide our customers with the highest possible level of service and product choice and solutions helping them in turn to improve their own operational and cost efficiencies.

Employee involvement

The company's policy is to consult and discuss with employees matters likely to affect employee's interests.

We have made significant investment through our #Arrowvision programme to communicate to all staff on a regular basis, despite their wide geographical distribution. All employees are aware of the financial and economic factors affecting the company's performance.

We are immensely proud of the results of our employee surveys, including those from teams that joined the business through acquisition during the year. The directors review the results with all teams and have appointed a senior manager as Head of Engagement to further strengthen our commitment to this area.

All employees with one or more years' service are beneficiaries of an Employee Share Trust that will share the benefit of any increase in the value of the Company at any subsequent exit.

Financial instruments

The principal financial instruments of the company comprise of bank balances, trade debtors and trade creditors.

Working capital requirements are met principally out of trade debtors and trade creditors which arise directly from the company's normal operations. The company's banking facilities are utilised to fund acquisitions and will be repaid out of operating cash flow. The company's finance facilities are held in sterling and the company does not enter into any hedging arrangements.

Trade debtors are managed in respect of credit and there is a policy to minimise any risk by assessing new customer's credit risk and monitoring existing customer's creditworthiness. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

Cash flow is closely monitored as part of day to day control procedures and the directors review cash flow projections on a weekly basis and ensure appropriate facilities are available to be drawn upon as necessary.

ARROW BUSINESS COMMUNICATIONS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Balance Sheet position

During the year, the balance sheet total has reduced by £2.8m and its constituent parts have changed significantly due to the increase in bank loans by £16.7m to fund the acquisitions noted above. In addition, amounts due to other group companies have increased by £7.1m being loan notes issued by the group as part of the acquisition considerations.

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



Mr C J Russell
Director

Date: 2 MAY 2019

ARROW BUSINESS COMMUNICATIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors

The directors who served during the year were:

Mr C J Russell
Mr P J Gibbons
Mrs T Tribe
Mr R E Burke
Mr J D Harber

Results and dividends

The profit for the year, after taxation, amounted to £2,691,805 (2017 - £1,112,585).

Dividends paid in the year are shown within the notes to these financial statements.

Future developments

The Directors are planning on further integration of subsidiaries within the group so as to simplify the corporate structure. Since the year end, two dormant subsidiaries have been struck off, and there is a plan to reduce the number of operating companies in the group to just three. In advance of striking off those companies, the activities of EUM have been hived into Pulse Business Energy and the activities of 360 Solutions (UK) have been hived up into Arrow.

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 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to 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.

Matters covered in the strategic report

The Company has chosen in accordance with Section 414C(II) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out within the Company's Strategic Report, the information required by Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008. This include information that would have been included in the business review and details of the principal risks and uncertainties.

ARROW BUSINESS COMMUNICATIONS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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 the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the 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

Since the year end, the activities of 360 Solutions (UK) Limited have been hived up into Arrow Business Communications Limited.

Auditor

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

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



Mr C J Russell
Director

Date: 2 MAY 2019

1st Floor, The Wharf
Abbey Mill Business Park
Godalming
Surrey
GU7 2QN

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARROW BUSINESS COMMUNICATIONS LIMITED

Opinion

We have audited the financial statements of Arrow Business Communications Limited (the 'Company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
ARROW BUSINESS COMMUNICATIONS LIMITED (CONTINUED)**

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
ARROW BUSINESS COMMUNICATIONS LIMITED (CONTINUED)**

Use of our report

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.

Menzies LLP

Ralph Michison FCA (Senior Statutory Auditor)
for and on behalf of

Menzies LLP

Chartered Accountants & Statutory Auditor

Lynton House

7-12 Tavistock Square

London

WC1H 9LT

Date: *7/5/2019*

ARROW BUSINESS COMMUNICATIONS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Turnover	4	22,120,898	22,592,538
Cost of sales		(13,348,457)	(13,458,234)
Gross profit		8,772,441	9,134,304
Administrative expenses		(7,296,119)	(7,273,913)
Operating profit	5	1,476,322	1,860,391
Income from shares in group undertakings		2,160,974	-
Interest payable and expenses	9	(654,804)	(327,064)
Profit before tax		2,982,492	1,533,327
Tax on profit	10	(290,687)	(420,742)
Profit for the financial year		2,691,805	1,112,585

There was no other comprehensive income for 2018 (2017:ENIL).

The notes on pages 12 to 30 form part of these financial statements.

ARROW BUSINESS COMMUNICATIONS LIMITED

REGISTERED NUMBER:05643503

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	12	9,713,519	5,229,890
Tangible assets	13	526,937	255,536
Investments	14	32,112,169	16,259,470
		<u>42,352,625</u>	<u>21,744,896</u>
Current assets			
Stocks	15	99,985	285,793
Debtors: amounts falling due within one year	16	5,463,551	3,592,419
Cash at bank and in hand	17	2,306,829	956,769
		<u>7,870,365</u>	<u>4,834,981</u>
Creditors: amounts falling due within one year	18	(25,749,635)	(15,680,947)
Net current liabilities		<u>(17,879,270)</u>	<u>(10,845,966)</u>
Total assets less current liabilities		<u>24,473,355</u>	<u>10,898,930</u>
Creditors: amounts falling due after more than one year	19	(23,229,962)	(6,947,500)
Provisions for liabilities			
Deferred tax	21	(34,263)	(23,455)
		<u>(34,263)</u>	<u>(23,455)</u>
Net assets		<u>1,209,130</u>	<u>3,927,975</u>
Capital and reserves			
Called up share capital	22	9,082	9,082
Share premium account	23	559,285	559,285
Capital redemption reserve	23	127,054	127,054
Profit and loss account	23	513,709	3,232,554
		<u>1,209,130</u>	<u>3,927,975</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Mr C J Russell

Director

Date: 2 MAY 2019

The notes on pages 12 to 30 form part of these financial statements.

ARROW BUSINESS COMMUNICATIONS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital £	Share premium account £	Capital redemption reserve £	Profit and loss account £	Total equity £
At 1 January 2017	9,082	2,410,187	127,054	5,805,834	8,352,157
Profit for the year	-	-	-	1,112,585	1,112,585
Total comprehensive income for the year	-	-	-	1,112,585	1,112,585
Dividends: Equity capital	-	-	-	(5,536,767)	(5,536,767)
Capital reduction	-	(1,850,902)	-	1,850,902	-
Total transactions with owners	-	(1,850,902)	-	(3,685,865)	(5,536,767)
At 1 January 2018	9,082	559,285	127,054	3,232,554	3,927,975
Profit for the year	-	-	-	2,691,805	2,691,805
Goodwill adjustment	-	-	-	(2,910,650)	(2,910,650)
Total comprehensive income for the year	-	-	-	(218,845)	(218,845)
Dividends: Equity capital	-	-	-	(2,500,000)	(2,500,000)
Total transactions with owners	-	-	-	(2,500,000)	(2,500,000)
At 31 December 2018	9,082	559,285	127,054	513,709	1,209,130

The notes on pages 12 to 30 form part of these financial statements.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

Arrow Business Communications Limited is a private limited company incorporated in the England and Wales under the Companies Act. The address of the registered office is given on the company information page, which is also the principal trading address. The principal activities of the company and the nature of its operations are set out in the strategic report.

The financial statements are prepared in Pound Sterling, which is the functional currency of the entity.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Arrow Business Communications Holdings Limited as at 31 December 2018 and these financial statements may be obtained from Companies House.

2.3 Going concern

The company has negative net current assets, which are directly as a result of the accelerated acquisition programme. The company is cash generative on an operating basis and the detailed forecasts prepared by the directors confirm that it is expected to remain so over the forthcoming years.

At the end of the year, the company had unused bank facilities and together with ongoing discussions with the group's bankers to fund future acquisitions, the directors are confident that obligations can be met as they fall due. Therefore the financial statements have been prepared on a going concern basis.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.4 Exemption from preparing consolidated financial statements

The Company is a parent Company that is also a subsidiary included in the consolidated financial statements of its ultimate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.6 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Goodwill	-	5-20% straight line
----------	---	---------------------

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Fixtures and fittings	-	50% straight line
Computer equipment	-	20-50% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.8 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.11 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

2.12 Finance costs

Finance costs are charged to the Statement of Comprehensive Income 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.

2.13 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.

2.14 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.15 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.16 Borrowing costs

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

2.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge 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.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these accounts are set out below.

Revenue recognition

Revenue and the associated costs on long term contracts is recognised as it is earned over the life of customer contracts. Amounts billed at intervals other than monthly, are allocated evenly over the life of the relevant contract. At the year-end an assessment is made of the stage of completion of any system installs in progress, and the corresponding revenue is recognised in the year.

Impairment

Goodwill is tested annually for impairment in accordance with the accounting policy set out for goodwill. Management have established that the key determinant of future value is retention of customers and are satisfied that the underlying assumptions regarding customer retention used in the setting of the useful life of goodwill are not unreasonable.

4. Turnover

An analysis of turnover by class of business is as follows:

	2018 £	2017 £
Fixed Sales	3,491,294	3,774,935
System Sales	3,823,853	4,534,096
IT & Data Related Sales	3,454,760	2,901,697
Mobile Sales including Network Revenue	11,350,991	11,381,810
	<u>22,120,898</u>	<u>22,592,538</u>

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	197,656	134,715
Amortisation of intangible fixed assets, including goodwill	1,216,526	1,366,792
Other operating lease rentals	393,192	397,542
	<u></u>	<u></u>

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6. Auditor's remuneration

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>17,000</u>	<u>16,000</u>

7. Employees

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

	2018 £	2017 £
Wages and salaries	4,206,143	4,054,102
Social security costs	377,879	434,329
Cost of defined contribution scheme	333,597	256,005
	<u>4,917,619</u>	<u>4,744,436</u>

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

	2018 No.	2017 No.
Administrative staff	120	119
Number of directors	5	4
	<u>125</u>	<u>123</u>

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

8. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	466,201	256,552
Company contributions to defined contribution pension schemes	73,997	48,340
	<u>540,198</u>	<u>304,892</u>

During the year retirement benefits were accruing to 5 directors (2017 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £127,929 (2017 - £79,535).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £14,061 (2017 - £8,457).

9. Interest payable and similar expenses

	2018 £	2017 £
Bank interest payable	646,688	282,499
Refinancing costs	8,116	44,565
	<u>654,804</u>	<u>327,064</u>

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. Taxation

	2018 £	2017 £
Corporation tax		
UK current tax expense	266,593	407,532
Adjustments in respect of previous periods	18,199	(1,881)
	<u>284,792</u>	<u>405,651</u>
Total current tax	<u>284,792</u>	<u>405,651</u>
Deferred tax		
Origination and reversal of timing differences	5,895	15,091
Total deferred tax	<u>5,895</u>	<u>15,091</u>
Taxation on profit on ordinary activities	<u>290,687</u>	<u>420,742</u>

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - higher than) the standard rate of corporation tax in the UK of 19% (2015 - 2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	2,982,492	1,533,327
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	566,673	295,165
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	201,377	223,996
Expenses not deductible for tax purposes	6,386	9,625
Capital allowances for year in excess of depreciation	(7,869)	15,165
Adjustments to tax charge in respect of prior periods	18,199	(1,881)
Short term timing difference leading to an increase (decrease) in taxation	(1,204)	(243)
Other timing differences leading to an increase (decrease) in taxation	7,099	15,334
Non-taxable income	(410,585)	-
Changes in provisions leading to an increase (decrease) in the tax charge	1,633	565
Other differences	(8,407)	(74)
Group relief	(82,615)	(136,910)
Total tax charge for the year	290,687	420,742

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

11. Dividends

	2018 £	2017 £
Dividends on ordinary shares	2,500,000	5,536,767
	2,500,000	5,536,767

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

12. Intangible assets

	Hosted platforms £	Goodwill £	Total £
Cost			
At 1 January 2018	-	16,544,027	16,544,027
Additions	260,926	5,439,229	5,700,155
At 31 December 2018	260,926	21,983,256	22,244,182
Amortisation			
At 1 January 2018	-	11,314,137	11,314,137
Charge for the year	-	1,216,526	1,216,526
At 31 December 2018	-	12,530,663	12,530,663
Net book value			
At 31 December 2018	260,926	9,452,593	9,713,519
At 31 December 2017	-	5,229,890	5,229,890

The hosted platform additions shown above were acquired as a result of the hive up of Worksmart Technology Limited on 31 December 2018.

The goodwill additions are in relation to the hive ups described in note 14 and have been transferred from fixed asset investments.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13. Tangible fixed assets

	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation			
At 1 January 2018	651,583	504,297	1,155,880
Additions	177,897	259,755	437,652
Transfers intra group	6,117	25,288	31,405
At 31 December 2018	835,597	789,340	1,624,937
Depreciation			
At 1 January 2018	442,214	458,130	900,344
Charge for the year on owned assets	100,009	97,647	197,656
At 31 December 2018	542,223	555,777	1,098,000
Net book value			
At 31 December 2018	293,374	233,563	526,937
At 31 December 2017	209,369	46,167	255,536

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2018	16,259,470
Additions	24,202,578
Transfer to intangible fixed assets on hive up	(5,439,229)
Amounts written off	(2,910,650)
At 31 December 2018	<u>32,112,169</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Orca Telecom Limited	68 Queens Road, Aberdeen, Scotland, AB15 4YE	Ordinary	100%
Comms Solve Technologies Limited	(**)	Ordinary	100%
Worksmart Technology Limited	(**)	Ordinary	100%
Siebert Telecom Solutions Limited	Blackfaulds House, Drumhead, Place, Cambuslang Investment, Park, Glasgow, G32 8EY	Ordinary	100%
Siebert Dormant Limited (*)	Blackfaulds House, Drumhead, Place, Cambuslang Investment, Park, Glasgow, G32 8EY	Ordinary	100%
Pulse Business Holdings Limited	(**)	Ordinary	100%
Pulse Business Energy Limited (*)	(**)	Ordinary	100%
Pulse Business Water Limited (*)	(**)	Ordinary	100%
Reeves Lund and Company Limited	(**)	Ordinary	100%
3Sixt Holdings Limited	(**)	Ordinary	100%
360 Solutions (UK) Limited (*)	(**)	Ordinary	100%
360 (II) Limited (*)	(**)	Ordinary	100%
Abica Limited	9 Dava Street, Glasgow, G51 2JA	Ordinary	100%
PCR IT Limited (*)	9 Dava Street, Glasgow, G51 2JA	Ordinary	100%
European Utility Management Limited	(**)	Ordinary	100%
Arrow Business Communications Trustee Limited	(**)	Ordinary	100%

(*) indirect subsidiary

(**) The Wharf, Abbey Mill Business Park, Lower Eashing, Godalming, Surrey, GU7 2QN

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Fixed asset investments (continued)

New acquisitions & hive up of subsidiaries:

Reeves Lund and Company Limited:

On 1 March 2018 Arrow Business Communications Limited acquired 100% of the ordinary share capital of Reeves Lund and Company Limited for a price of £1,750,000 plus a balance sheet payment and fees of £237,633. The fair value of net assets acquired were:

Fixed assets £6,682
Current assets £397,104
Current liabilities (£209,074)
Provisions (£894)

Total net assets acquired £193,818

On 30 April 2018 the entity's trade and assets were hived up into Arrow Business Communications Limited. At this time the net assets were £240,234. Goodwill has been recognised at £1,799,454 and the goodwill is being amortised over 5 years. This transaction resulted in an adjustment to Goodwill in the period of £188,179 following the transfer from investments, which has been recognised in equity.

3Sixt Holdings Limited:

On 1 June 2018 Arrow Business Communications Limited acquired 100% of the ordinary share capital of 3Sixt Holdings Limited and its subsidiaries 360 Solutions (UK) Limited and 360 (II) Limited for a price of £7,800,000 (of which £1,300,000 was deferred) plus a balance sheet payment and fees of £476,907. The fair value of net assets acquired were:

Fixed assets £44,230
Current assets £2,608,673
Current liabilities (£2,254,482)
Total net assets acquired £398,421

Abica Limited:

On 1 November 2018 Arrow Business Communications Limited acquired 100% of the ordinary share capital of Abica Limited and its subsidiaries PCR IT Limited for a price of £11,410,000 plus a balance sheet payment and fees of £1,518,243. The fair value of net assets acquired were:

Fixed assets £368,752
Current assets £4,219,918
Current liabilities (£2,721,919)
Provisions (£21,263)

Total net assets acquired £1,845,488

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Fixed asset investments (continued)

European Utility Management Limited:

On 31 December 2018 Arrow Business Communications Limited acquired 100% of the ordinary share capital of European Utility Management Limited for a price of £827,000 (of which £577,000 was deferred) plus a balance sheet payment and fees of £161,174. The fair value of net assets acquired were:

Fixed assets £5,895
Current assets £189,172
Current liabilities (£49,361)
Provisions (£608)

Total net assets acquired £145,098

Worksmart Technology Limited:

On the 31 December 2018 Worksmart Technology Limited had its trade and assets hived up into Arrow Business Communications Limited. The net assets at the time of the hive up were £2,046,281. Goodwill has been recognised at £3,639,775 and the goodwill is being to be amortised over 5 years. This transaction resulted in an adjustment to Goodwill in the period of £2,722,471 following the transfer from investments, which has been recognised in equity.

15. Stocks

	2018 £	2017 £
Finished goods and goods for resale	99,985	285,793

16. Debtors

	2018 £	2017 £
Trade debtors	1,472,874	1,182,914
Amounts owed by group undertakings	61,000	54,000
Other debtors	46,605	29,326
Prepayments and accrued income	3,883,072	2,326,179
	5,463,551	3,592,419

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. Cash and cash equivalents.

	2018 £	2017 £
Cash at bank and in hand	2,306,829	956,769
Less: bank overdrafts	(4,138)	(313,659)
	<u>2,302,691</u>	<u>643,110</u>

18. Creditors: Amounts falling due within one year

	2018 £	2017 £
Bank overdrafts	4,138	313,659
Bank loans	4,536,664	4,162,500
Trade creditors	1,396,911	1,352,423
Amounts owed to group undertakings	12,340,412	5,218,137
Corporation tax	301,598	157,532
Other taxation and social security	776,564	710,547
Other creditors	4,095,721	2,267,227
Accruals and deferred income	2,297,627	1,498,922
	<u>25,749,635</u>	<u>15,680,947</u>

The following liabilities were secured:

	2018 £	2017 £
Bank loans	4,536,664	4,162,500
	<u>4,536,664</u>	<u>4,162,500</u>

Details of security provided:

The above loans are secured by fixed and floating charges over the assets of the company, and those of all of the companies in the Arrow Business Communications Holdings Limited group.

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

19. Creditors: Amounts falling due after more than one year

	2018 £	2017 £
Bank loans	23,229,962	6,947,500
	<u>23,229,962</u>	<u>6,947,500</u>

The following liabilities were secured:

	2018 £	2017 £
Bank loans	23,229,962	6,947,500
	<u>23,229,962</u>	<u>6,947,500</u>

Details of security provided:

The above loans and also the loans included within its immediate parent company, Arrow Business Communications Group Limited (£30,845,478) are secured by fixed and floating charges over the assets of the company, and those of all of the companies in the Arrow Business Communications Holdings Limited group.

20. Loans

Analysis of the maturity of loans is given below:

	2018 £	2017 £
Amounts falling due within one year		
Bank loans	4,536,664	4,162,500
	<u>4,536,664</u>	<u>4,162,500</u>
Amounts falling due 1-5 years		
Bank loans	23,229,962	6,947,500
	<u>23,229,962</u>	<u>6,947,500</u>
	<u>27,766,626</u>	<u>11,110,000</u>

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. Deferred taxation

	2018 £
At beginning of year	(23,455)
Charged to profit or loss	(5,895)
Acquired on acquisition	(4,913)
At end of year	(34,263)

The provision for deferred taxation is made up as follows:

	2018 £	2017 £
Accelerated capital allowances and other short term timing differences	(34,263)	(23,455)
	(34,263)	(23,455)

22. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
908,174 (2017 - 908,174) Ordinary shares of £0.01 each	9,082	9,082

23. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company.

Profit and loss account

This reserve records retained earnings and accumulated losses.

24. Pension commitments

Amounts outstanding for pension commitments included within other creditors were £40,859 (2017 - £31,993).

ARROW BUSINESS COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

25. Operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	502,265	279,866
Later than 1 year and not later than 5 years	1,407,738	865,174
Later than 5 years	273,980	471,936
	<u>2,183,983</u>	<u>1,616,976</u>

26. Related party transactions

The company is exempt from disclosing related party transactions with entities that are part of the Arrow Business Communications Holdings Limited group.

27. Post balance sheet events

Since the year end, the activities of 360 Solutions (UK) Limited have been hived up into Arrow Business Communications Limited.

28. Controlling party

The Company's immediate parent company is Arrow Business Communications Group Limited.

The ultimate parent entity, to which consolidated accounts include this company is Arrow Business Communications Holdings Limited. The consolidated accounts are available from Companies House.

There is not considered to be one ultimate controlling party.