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# Strategic Report

# 01

## Highlights of the year

Eckoh plc (AIM: ECK), the global provider of Secure Payment Products and Customer Contact solutions, is pleased to announce its final results for the year ended 31 March 2018.

£m unless otherwise stated	FY18	FY17	change
Revenue	30.0	29.1	3%
Recurring Revenue % <sup>1</sup>	76%	76%	- bps
US revenue mix %	37%	33%	+ 400 bps
Gross profit	22.9	20.3	13%
Adjusted EBITDA <sup>2</sup>	6.5	5.8	13%
Adjusted Operating Profit <sup>3</sup>	5.3	4.3	22%
Adjusted operating profit margin	17.7%	14.8%	+290 bps
Statutory PBT	2.4	1.6	50%
Diluted Earnings per share	1.03p	0.56p	84%
Proposed Full Year Dividend per share	0.55p	0.48p	15%
Net Cash	3.6	0.2	n.m.

### Strategic highlights:

- Full year results in line with market expectations
- Growth in revenues, margin and profit
- US revenues up 16%, or 32% at organic local currency, representing 37% of Group revenues
- Excellent progress in US Secure Payments revenues up 179% to \$6.7m (FY17: \$2.4m)
  - 12 payment contracts won worth \$9.3m (FY17: nine contracts worth \$8.3m)
  - Unrecognised payments revenue of \$9.7m (FY17 \$6.5m); encouraging pipeline for 2018
  - Two new 20 year patents awarded, underpinning all US payments revenue
- Year of transition in the UK
  - Restructured UK sales function and focus on larger strategic accounts bearing fruit
  - More than twice the number of contracts won in H2 compared to H1
  - Strong order book offering renewed momentum

1. Recurring revenue is defined as on-going monthly revenue, rather than revenue derived from the set-up and delivery of a new service or the delivery of hardware.

2. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is the profit before tax adjusted for depreciation, amortisation, finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions. A reconciliation of this adjusted measure to statutory profit before tax can be found on page 14.

3. Adjusted operating profit is the profit before adjustments for finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions. A reconciliation of this adjusted measure to statutory profit can be found on page 14.

## Financial Highlights

**REVENUE  
UP 3% TO  
£30.0m**  
or 7.6% at organic  
constant currency<sup>1</sup>

**GROSS  
PROFIT  
INCREASED  
13% TO  
£22.9m**  
(FY17: £20.3m)

**ADJUSTED  
OPERATING  
PROFIT<sup>2</sup>  
£5.3m**  
(FY17: £4.3m)

**PROFIT  
BEFORE  
TAXATION  
£2.4m**  
(FY: £1.6m)

**BALANCE  
SHEET  
significantly  
strengthened  
with net cash of  
£3.6m**  
(FY17: £0.2m)

**FINAL  
DIVIDEND  
INCREASED**  
proposed dividend of  
**0.55p**  
per share  
(FY17: 0.48p)

## Current Trading:

- Two three-year UK contracts worth a combined £1.3m won in the insurance sector since period end
- Four-year US payment contract win worth \$1.1m with large healthcare company since period end
- Significant increase in interest in Omni-channel offering and chatbot technology

1. Organic constant currency excludes the closed Professional Services division and K2C division and uses last year's exchange rates to translate both last year and this year revenues for a comparison.
2. Adjusted operating profit is the profit before adjustments for finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions. A reconciliation of this adjusted measure to statutory profit can be found on page 14.



## Chairman's Statement

## Results

**I am pleased to report on the progress Eckoh has made over the past twelve months. The financial results to 31 March 2018, show continued progress with both revenue and adjusted operating profit' growth.**

In the US the Secure Payments opportunity remains the largest single opportunity for the Group and during the year the US team secured \$9.3 million new orders (2017: \$8.3m) in this revenue channel. The first deal, worth a minimum of \$1.9 million, was signed through West since it was acquired by Apollo Global Management in May 2017. Strategically, the business is developing partnership arrangements, with the intention of accelerating the future growth rate and I am delighted that Kathleen Phillips has joined the US team as Head of Channel Sales.

In the UK business, we made progress in the second half of the year after the restructuring of the Sales team. In the UK we secured a number of sizeable contract wins in the second half, which will start to deliver revenues in the coming year. The UK business now has a stronger pipeline of opportunities that they are working on.

The Company will be implementing IFRS 15 *Revenue from Contracts with Customers*, with effect from 1 April 2018, on a fully retrospective basis. When the Company reports the Interim Results in November, the Financial Statements will be presented against restated Financial Statements for the year ended 31 March 2018. Whilst, the impact of IFRS 15 is significant for the Group's results, particularly in the US market, where the Group has the most opportunity and the business is the least mature, it is important to note that neither the business model nor the Group's market opportunity is impacted. The Group does not intend to change the commercial model of the business, so cash generation is also not impacted by the implementation of IFRS 15.

The Board recommends a final dividend of 0.55 pence per Ordinary Share (2017: 0.48p), which, subject to approval by Shareholders at the 2018 AGM will be paid on 26 October 2018.

## Board

Firstly, I would like to thank Chris Batterham for his significant contribution as Chairman over the last 8 years together with Peter Simmonds who served as a Non-Executive Director and Remuneration Committee Chairman over 18 months, until he resigned in December 2017. I would also like to welcome David Coghlan to the Board; David joined the Board on 1 December 2017 as a Non-Executive Director and Remuneration Committee Chairman. Full details of the current Directors are on page 28.

## Corporate Governance

In the governance section we outline how we have complied with the UK Corporate Governance Code (the Code); where our policies depart from the code; and an explanation of the reasons for that departure. During the current year, with the recent release of the Quoted Companies Alliance Corporate Governance Code and the impending changes to the Financial Reporting Council UK Corporate Governance Code, we will review the Corporate Governance Code that is most appropriate to the Group.

In addition, whilst risks & uncertainties have been monitored internally for some time these have not previously been disclosed in the Annual Report. Full details of the Company's principal risks and uncertainties are on page 12 to 13.

## People

Our strong progress in the last year and future success is down to the hard work and dedication of all our employees across the Group, and on behalf of the Board I would like to thank them for their dedication and hard-work over the last 12 months.

I, and all my Board colleagues, plan to attend the AGM on 19 September 2018 and we look forward to the opportunity to meet with as many Shareholders as possible on the day.

**Christopher Humphrey**  
**CHAIRMAN** 13 June 2018

**" I am delighted to have been asked to join the Board as a Non-Executive Director in June last year and subsequently, at the AGM, be appointed as Chairman of the Company and its Board. "**

1. Adjusted operating profit is the profit before adjustments for finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions. A reconciliation of this adjusted measure to statutory profit can be found on page 14.

## Chief Executive Review



***I am pleased to report a year of growth for Eckoh, and a particularly strong performance in the United States as we scale our Secure Payments proposition.***

**Our momentum in US Payments is pleasing, where we are the market leader in contact centre security. Another strong year of US Secure Payments contract wins was further strengthened by many of our largest Secure Payments deployments successfully going live, which gives us positive case studies and customer references that we can leverage for further new customer growth. In US Payments, given the size of the market opportunity, the quality of our patented products and the limited competition, we expect to see strong US growth over the coming years.**

As outlined at the half year, trading in the UK has been more challenging, but the changes we have made halfway through the year to the sales team and further organisational changes at the beginning of this year have resulted in a marked improvement and renewed activity both direct and via channel partners. Second half sales performance and contract wins were significantly improved on the first half and the pipeline is strong. Whilst the Group did not secure any new contracts through the Capita channel during the year, for the first time since our partnership started five years ago, current activity levels give us cause for optimism that this year will see a more normal picture and improved performance. As a result, in overall terms we would anticipate that the UK operation will have a stronger year than last.

### Highly complementary products and attractive proposition

Eckoh's go-to-market proposition encompasses two highly complementary areas: Secure Payments products and Customer Contact solutions. We continue to see good demand in both areas, as customers recognise the value of our combined offering. With the recent arrival of the General Data Protection Regulation ("GDPR"), we anticipate further demand for our proposition, as businesses are required to increase their commitment to best-in-class data protection and focus on greater levels of compliance with security regulation.

#### Our proposition comprises two key parts:

- The Group's patented Secure Payment products remove sensitive personal and payment data from IT environments and contact centres. This helps organisations to reduce the risk of fraud; secure sensitive data; comply with the Payment Card Industry Data Security Standards ("PCI DSS") and wider security regulations such as GDPR. Our Secure Payments products are generally straightforward to deploy; enjoy extremely high renewal rates and provide an excellent platform from which to cross-sell other Eckoh solutions to our customer base.
- The Group's Customer Contact solutions help organisations transform the way they engage with their customers by enabling enquiries and transactions to be performed on whatever device the customer chooses, through whatever form of communication. Eckoh's proposition includes interactive voice, web, email, SMS, mobile, WebChat, Chatbots and social media, enabling our clients to increase efficiency, lower operational costs and provide a true Omni-channel experience.

Contracts for both propositions are typically multi-year in length and have a high proportion of recurring charges, usually underpinned by minimum commitments. Eckoh's two key markets are the UK and US, although the Group also sells its payments services in other international markets. In the UK, almost all solutions are delivered from Eckoh's hosted managed service platform, whilst in the US customers are currently more predicated to deploy our solutions on site.

In the UK the Group sells its full portfolio of services and over the course of the last 15 years has built a client base of 90<sup>1</sup> customers, many of which have been with the Group for more than a decade. Of these 90 clients, 45% take a combination of both our Payment services and Customer Contact solutions. In the US, a territory that Eckoh entered only four years ago, the Group's focus is on products where we have the greatest differentiation and the least competition – such as secure payments, contact centre infrastructure support and our browser-based agent desktop tool, Coral. It is anticipated that we will be taking some of the Omni-channel offering, notably secure Webchat, into the US market this year.

### A significant and largely untapped market opportunity

Our target market both in the UK and US is any sizeable enterprise or organisation that either transacts or engages with its customers at scale and at volume. This activity will usually be supported either by an in-house or outsourced contact centre provider. The greater the volume of transactions or customer engagement activity that organisation has, the more attractive they are to Eckoh, and the larger the contact centre operation supporting the organisation is likely to be.

The contact centre industry in the UK and US is so large that, in each case, it represents around 4% of the entire workforce, and the industry continues to grow. According to ContactBabel, at the end of 2017 there were 6,200 contact centres in the UK with 770,000 agent seats employing nearly 1.3 million staff. We typically target organisations that utilise contact centres with more than 50 agent seats and this represents over 2,500 in number and over 500,000 agent seats. With 90 clients each generating more than £25k of annual revenue, we cover just over 3% of our addressable UK market.

1. Clients who each generate more than £25,000 of revenue per annum.
2. Clients who each generate more than \$35,000 of revenue per annum

The US market is five times larger than the UK with over 40,000 contact centres and over 3.6 million agent seats, employing 6 million staff. There are 14,000 US contact centres with more than 50 seats, representing 2.9 million agent seats in total. With a base of 46<sup>2</sup> clients in the US today (FY17: 41) we cover less than 1% of our addressable US market.

With regulation tightening and the financial impact of data breaches and fraud growing, organisations around the world are increasingly looking for ways to secure themselves and we see that trend only continuing. Information security budgets and remit is broadening, and this can only benefit Eckoh with our payments proposition enabling companies to effectively remove the risk of data breach from some of the most challenging parts of their businesses. With so little of our target market currently addressed, and with very limited competition to our offering, this represents a huge opportunity for Eckoh in the coming years.

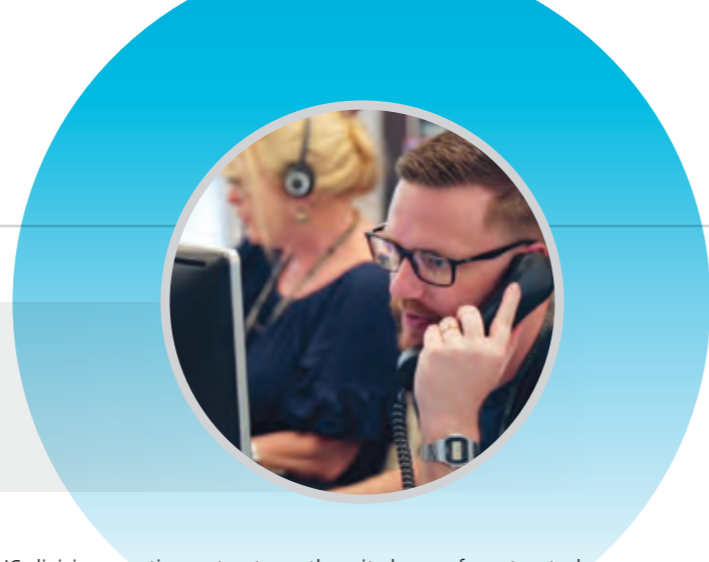
But mining this potentially huge opportunity requires a disciplined approach. As a result, we are focusing our sales and R&D resources on segments where clients prioritise the volume or value of payment transactions, the sensitivity of the data handled or the level of engagement with the customer. Our priority sectors include companies in the insurance, retail and distribution, financial services, transport and travel, healthcare and utilities industries.

### A clear growth strategy

***Our strategic objectives reflect our aim to become the global leader in our areas of expertise, and in particular, Secure Payments in the US.***

#### Our objectives include:

- Expanding our US footprint and the size of our team to capitalise on the fast-growing market for secure payment opportunities
- Broadening channel partnerships in both UK and US markets
- Continuing to extract value from the businesses acquired in recent years
- Continuing to invest in R&D to underpin next generation product development; protect and enhance our proprietary technologies; and maintaining our market leading position
- Maximising client value through cross-selling
- Continuing to evaluate acquisition opportunities that can support our growth strategy, where timely and accretive, but on an opportunistic basis.



## Operational Review

### US Division (37% of Group revenue, 57% recurring revenue<sup>1</sup>)

This was a strong performance from the US Division. Revenue from US operations increased by 14% to £11.1m (FY17: £9.7m) and now represents 37% of Group revenues. Included in the results for last year was the closed Professional Services activity (FY17: \$1.6m). Excluding the closed Professional Services activity, US division grew by 32% year on year.

In the US, the Group focuses on three activities where we have the greatest differentiation and the least competition: Secure Payments; Support (of contact centre infrastructure); and Product (notably Coral, an Omni-Channel contact centre agent desktop product).

- **Secure Payments** revenue more than doubled (179% increase) to \$6.7m (FY17: \$2.4m), representing 46% of the US division's revenue compared to 20% for the same period last year.
- **Support** revenue accounted for 39% of revenue in the period at \$5.8m and decreased by 3% year on year (FY17: \$6.0m).
- **Coral product** had revenue of \$1.7m in the period and decreased by 26% year on year (FY17: \$2.2m) and other product revenues in the period were \$0.5m (FY17: \$0.3m).

The US division continues to strengthen its base of contracted revenues and enters the new financial year with a monthly run rate of revenue from existing customers at the period end of \$1.0m (FY17: \$0.7m). Recurring revenues for the year in the US were improved to 57% (FY17: 54%) and this is anticipated to grow further in the coming year as the focus remains on securing long term 'Opex' contracts and the proportion of revenue from Secure Payments increases.

Excellent progress has been made in Secure Payments with new contract value increasing once again. We have moved our contracts almost entirely to the 'SaaS style' (which we refer to as 'Opex' pricing) as our preferred model, and in the period all but one of the new contract wins were of this nature. With this model, typically 15%-35% of the contract value is recognised over the implementation period, which can be between six to eight months for our patented, on-site tokenisation solution, CallGuard, which is selected by the clear majority of our clients.

The Opex method of pricing provides the Group with greater visibility on future revenues and higher levels of recurring revenue in line with the UK financial model.

The balance of the revenue is recognised equally each month over the remainder of the contract once the solution is operational, which is generally three years. This is compared to the 'Capex pricing', where customers would pay 65%-70% of the contract up front for the implementation of their service followed by a three-year annual support and maintenance contract representing the remaining 30%-35%.

Over the last two years the change in contracting strategy for payment clients has been extremely successful as shown in the table below;

	Contract wins	Total Contract Value	Average Contract Value	Capex Pricing	Opex Pricing
<b>FY15</b>	5	\$0.3m	\$53K	5	Nil
<b>FY16</b>	9	\$1.6m	\$173K	8	1
<b>FY17</b>	9	\$8.3m	\$918K	2	7
<b>FY18</b>	12	\$9.3m	\$776k	1	11

During the year, twelve contracts were secured with a total contract value of \$9.3m (FY17: \$8.3m). We have stated that we expect average contract values for direct sales to generally be in the range of \$700k-\$750k. Our average contract value this year was slightly above the level we typically expect. This was, as expected, lower than last year's average, which was distorted by a large contract worth \$3.7m. The total of unrecognised payments revenue, our Secure Payments Order Book, as at 31 March 2018 is \$9.7m (FY17: \$6.5m), which will largely be recognised over the next three years.

We have successfully gone live during the period with many of our larger implementations and this has provided us with excellent customer references in many of our key sectors. This is helping us achieve a high win rate in competitive sales processes and as an illustration since the period end we have won a four year contract worth £\$1.1m with a very large healthcare company through such a process. We currently have more live US secure payments customers than any of our narrow universe of competitors, and these customers are typically large household names. A particularly significant new contract this year was with a well-known US retailer who had previously suffered a very large data breach relating to card data. To be chosen by such a customer who is acutely aware of the importance of managing data securely, supports our belief that we are the established market leader. Our payment products have been developed and evolved over many years and in February 2018 we secured two further US patents, which means that all of our US payments revenue is now under-pinned by at least one patent (see the Innovation section for more detail).

This year we expect to increase our pipeline and sales from our US partner Channel, and to support this strategy we have employed a Head of Channel Sales. We have added a small number of new partners so far this calendar year, but we are focused on only adding partners that we believe will be able to deliver a sustainable volume and scale of opportunities in our target market. It is not our intention to pursue partners who may deliver high numbers of small deals. Given the scale of the opportunity in the US, the Group is focused on the largest value opportunities due to the disproportionate level of effort and cost required for low value customers.

In Support, where we provide expert third party support for Contact Centre infrastructure from vendors such as Avaya, Cisco, Genesys and Aspect guidance, revenue declined by 3%. This was mainly due to one of our largest customers reducing the overall level of support they required in the second half of the year. The average length of a specific support engagement is three years, but many of our customers take multiple support contracts so the overall relationship can last for much longer and given the nature of the service we provide it is very common for us to contract with historic customers after a break of some years. We continue to pursue new Support opportunities and see this activity as a key part of our US strategy as we seek to leverage the team who work in Support across our other sales channels. Our customers in this area are typically large enterprises and as such can often be excellent prospects for both our Secure Payments and Coral product, as seen from the lucrative contracts the Group has won through cross selling.

The third of our sales activities is our browser-based agent desktop tool Coral, which increases efficiency and reduces Average Handling Time ("AHT") by bringing all agent communications into a single screen. It also enables organisations, particularly those which have grown by acquisition, to standardise their contact centre facilities, as Coral can be implemented in environments that operate on entirely different underlying technology. In the year, revenues declined by 26%, reflecting no additional licence sales for the Coral product. As stated previously, the exact timing of licence orders is unpredictable. However, one of our largest US customers has approved Coral as its standard desktop, so the expectation is that there will be significant future licence orders, although the timing is uncertain. Eckoh has been the exclusive reseller for Coral since the product was launched some years ago and in the period the contract has been renewed for a six-year period, with the exclusive arrangement in place until at least 2021.



1. Recurring revenue is defined as on-going revenue based on a transactional basis, rather than revenue derived from the set-up and delivery of a new service or the delivery of hardware.

“Over the last two years the change in contracting strategy for payment clients has been extremely successful.”

## UK Division (63% of Group revenue, 86% recurring revenue<sup>1</sup>)

In the UK, revenue decreased by 2% to £18.8m (FY17: £19.4m). Recurring revenue<sup>1</sup> was 86% in the year (FY17: 87%), with the small reduction reflecting the improvement in new business in the second half of the year and the implementation fees recognised. The UK business had an exit monthly recurring revenue run rate of £1.4m, in line with last year. Gross margins in the UK have improved to 85% (FY17: 83%).

The UK operation had a somewhat disappointing performance compared to recent years, with a weak sales performance in the first half of the year and lower than expected new activity from our channel partners, notably Capita.

To improve our focus and performance, we have taken swift and decisive action to restructure our UK sales team. This led to a much-improved second half performance with nine new contracts won. These contracts came from important sectors including healthcare, insurance, retail, telecoms and payments. One of the payment contract wins was with a subsidiary of one of our new US customers, pointing to a growing trend of companies looking to standardise their secure payments with the same supplier on an international basis. Since period end the improved performance has continued with contract wins including two three-year deals in the insurance sector worth a total of £1.3m.

We now have 90 (FY17: 87) UK clients who each generate more than £25k per annum of revenue, more than twice the level we had four years ago (FY14: 43). The largest contract renewal this year was with Tenpin, for a further three years to December 2020, to provide both Secure Payments and Customer Contact Services.

Of these UK clients, those who only take Secure Payment services represented 28% (FY17: 23%), whilst those only taking Customer Contact solutions accounted for 27% (FY17: 33%). This means the largest segment at 45% (FY17: 44%) take a combined solution of both Secure Payment and Customer Contact and the average contract value of these clients is £521k, significantly higher than the overall average client contract value of £205k per annum and higher than contracts for just one of our services. Cross selling to existing clients in this way is a key part of the Eckoh strategy, not only to drive incremental revenue but to continue the trend of extremely high levels of client retention and to increase the lifetime value of the customer.

Partnerships remain an important channel to market for us and our largest partners are Capita, BT and Teleperformance. In the period 32% of revenue came through partners. Capita has been a key partner over the last five years and this was the first year since our partnership began not to result in a new contract. We had started working on a new opportunity with Capita in the latter part of the year that ultimately did not come to fruition, but we are hopeful following their successful restructuring earlier this year that the relationship will once again begin delivering sizeable contracts. We have renewed our partnership agreement with our long-standing partner BT for a further three years and our relationship with Teleperformance, which to date has predominantly been for our Omni-Channel solutions, has strengthened and we now have two of their customers who have contracted for our full product suite, one of which is Her Majesty's Passport Office. We also have strategic relationships with specialists like allpay, who provide payment services to housing associations, and during the year we have supplied, through allpay, secure payment services to eight more of their associations.

With GDPR having come into force in May 2018 organisations face the prospect of very significant fines for non-compliance and need to take even greater steps to secure their customers' personal data. Eckoh is well placed to assist in that regard with our solutions which ensure that personal data including card data is handled compliantly and removed or de-scoped from our clients' IT environment.

1. Recurring revenue is defined as on-going revenue based on a transactional basis, rather than revenue derived from the set-up and delivery of a new service or the delivery of hardware.

## Innovation

In February, the US Patent and Trademark Office granted us two further 20-year patents for our industry-leading contact centre security solution, CallGuard.

In 2015, Eckoh was awarded a US patent for part of its CallGuard offering but these new awards will ensure that all current Eckoh US payments revenue and future contracts will be protected by at least one Eckoh patent. With \$18m of US payments contracts won in the last two years, and the US market growing rapidly, this protection of Eckoh's intellectual property is strategically vital in ensuring we continue to lead this key market.

The first new CallGuard patent was for Eckoh's tokenisation process that automatically replaces real card payment data or other personal data such as Social Security numbers with valueless 'placeholders' thereby encrypting and protecting customer's sensitive data. These placeholders can flow safely through a contact centre's telephony and data networks, reducing the risk of hacking and ensuring agents are not exposed to customers' sensitive data. The second patent was for transformational technology that uses both voice biometrics to authenticate a caller, and a phone 'footprint' to authenticate the caller's mobile device. This dual authentication mechanism will provide a more secure way for merchants to verify that the caller is the genuine cardholder and reduce the risk of fraud.

“*The long-term prospects for Eckoh remain extremely positive.*”



In the UK the development team are working on integrating the Omni-Channel technology that was obtained through the acquisition of Klick2Contact (“K2C”) in July 2016 into the core Eckoh platform. With a two-year earn out in place on the K2C acquisition it has not been feasible to commit significant technical resources from the K2C team until now. Once complete this will allow us to deliver a fully integrated customer engagement solution, branded as the Eckoh Experience Portal (‘EXP’), with information about activity made through any channel shared in real-time across our platform. We will also be able to provide conversational interfaces in both the voice and web channels utilising a common knowledge base and leveraging artificial intelligence where required. We see this use of new Chatbot technology working in tandem with our long-established speech recognition services as a key driver of new business over the coming years.

## Board Changes

In May 2017 we were pleased to welcome Chrissie Herbert to the Board as Chief Financial Officer and in June 2017 Christopher Humphrey to the Board as a Non-Executive Director. Christopher was appointed Chairman at the AGM in September 2017. In December 2017, we were very pleased to appoint David Coghlan as a Non-Executive Director, David brings with him extensive experience with technology companies in the business-to-business field. In December 2017 Peter Simmonds retired from the Board.

## Current Trading and Outlook

The new financial year has started in line with expectations, with the Group continuing to scale US operations, and seeing early benefits from an improved UK sales performance, continuing the momentum from the second half of the 2018 financial year. We have strong sales pipelines in both markets with excellent revenue visibility from recurring revenue. This, allied with high client retention rates, give the Board confidence that the long-term prospects for Eckoh remain extremely positive.

**Nik Philpot**  
CHIEF EXECUTIVE OFFICER  
13 June 2018



## Principal risks & uncertainties

Eckoh is exposed to a number of risk factors which may affect its performance. The Group has a framework for reviewing and assessing these risks on a regular basis and has put in place appropriate processes and procedures to mitigate against them. However, no system of control or mitigation can completely eliminate all risks. The Board has determined that the following are the principal risks facing the Group.

SPECIFIC RISK	MITIGATION
<b>Cyber, technology &amp; processes</b>	
<b>Loss or inappropriate usage of data</b>	
The Group's business requires the appropriate and secure usage of client, consumer and other sensitive information. Fraudulent activity, cyber-crime or security breaches in connection with maintaining data and the delivery of our products and services could harm our reputation, business and operating results.	The Group has established physical and logical security controls at its data centres with rigorous cyber security controls, monitoring procedures, recruitment and training schemes, which are embedded throughout the business operations. The Group also screens new employees carefully. Continued investments are made in cyber security; infrastructure, monitoring and services, improvements in email and web filtering as well as the introduction of enhanced data loss prevention tools.
<b>Interruptions in business processes or systems</b>	
The Group's ability to provide reliable services largely depends on the efficient and uninterrupted operation of our telecoms platform, network systems, data and contact centres as well as maintaining sufficient staffing levels. System or network interruptions, recovery from fraud or security incidents or the unavailability of key staff or management resulting from a pandemic outbreak could delay and disrupt our ability to develop, deliver or maintain our products and services. This could cause harm to our business and reputation, resulting in loss of customers or revenue.	Comprehensive business continuity plans and incident management programmes are maintained to minimise business and operational disruptions, including system or platform failure. Testing and confirmation of plans is performed to ensure Business continuity relevance and training is maintained.

## Legal, regulatory and industry standards

<b>Risk of non-compliance with legal and industry standards</b>	
The Group's operations require it to be compliant with certain standards including Payment Card Industry Data Security Standards (PCI-DSS) and General Data Protection Regulation (GDPR) effective May 2018. Failure to comply with such regulations and standards could significantly impact the Group's reputation and could expose the Group to fines and penalties.	We continually review and enhance our controls, processes and employee knowledge to maintain good governance and to comply with legal requirements and industry standards. Our new employees are carefully screened.
<b>Loss or infringement of intellectual property rights</b>	
The Group's success depends, in part, upon proprietary technology and related intellectual property rights. Some protection can be achieved but, in many cases little protection can be secured. Third parties may claim that the Group is infringing their intellectual property rights or our intellectual property rights could be infringed by third parties. If we do not enforce or defend the Group's intellectual property rights successfully, our competitive position may suffer, which could harm our operating results. We may also incur cost from any legal action that is required to protect our intellectual property.	The Group, where appropriate and feasible, relies upon a combination of patent and trade mark laws, to protect our intellectual property and continues to monitor competitors in the market to identify potential infringements of our intellectual property rights. The Group would vigorously defend all third party infringement claims.

SPECIFIC RISK	MITIGATION
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## HR & Personnel

### Dependence on recruitment and retention of highly skilled personnel

The ability of the Group to meet the demands of the market and compete effectively is, to a large extent, dependent on the skills, experience and performance of its personnel. Demand is high for individuals with appropriate knowledge and experience in payments security, telecoms, IT development and support services. The inability to attract, motivate or retain key talent could have a serious consequence on the Group's ability to service client commitments and grow our business.

Effective recruitment programmes are on-going across all business areas, as well as personal and career development initiatives. The Management team reviews key individuals on a quarterly basis and retention plans are put in place for individuals identified at risk of leaving. Compensation and benefits programmes are competitive and are reviewed regularly.

## Products & Clients

### Technological & product development

The Group provides technical solutions for clients and their end customers. As customer preferences and technology solutions develop, competitors may develop products and services that are superior to ours, which could result in the loss of clients or a reduction in revenue.

The Group is committed to continued research and investment in products and technology to support its strategic plan. Product development for payment and Customer Contact solutions are managed centrally in the UK.

### Dependence on key clients

While the Group has a wide customer base, the loss of a key customer, or a significant worsening in their success or financial performance, could result in a material impact on the Group's results. Eckoh's largest customer accounted for 9.4% (2017: 11.5%) of total revenue.

We mitigate this risk by monitoring closely our contract performance, churn and renewal success with all customers by maintaining strong relationships. We continue to expand our customer base, particularly in the US business.

## Economic growth

### Executing the US opportunity

The Group has a low market share in the US, where there is significant market opportunity for its secure payments product. The inability to execute in the US, winning new clients and implementing secure payment solutions for clients, could have a material impact on the Group's results.

The Group sets clear targets for growth expectations for the US business. We continually assess our performance and adapt our approach taking into account our actual and anticipated performance.

### Exchange rate & Brexit

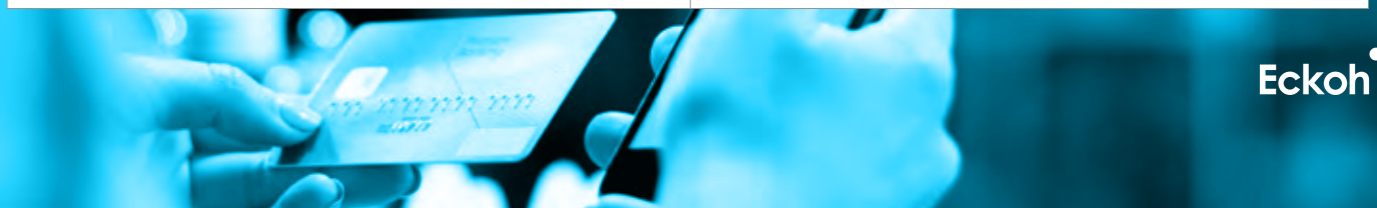
The Group is exposed to the US dollar and the translation of net assets and income statements of its US division. The uncertain outcome of Brexit negotiations may increase Sterling volatility in the next few years, which in turn may have a material impact on the Group's translated results.

We regularly review and assess our exposure to changes in exchange rates. The Group does not hedge the translation effect of exchange rate movements on the Income Statement or Balance Sheet of the US division.

### Reputation of the Eckoh Group

Damage to our reputation and our brand name can arise from a range of events such as poor solution design or product performance, unsatisfactory client services and other events either within or outside of our control.

We recognise this risk by recognising the importance of our reputation and attempting to identify any potential issues quickly and address them appropriately. We recognise the importance of providing high quality solutions, good client services and managing our business in a safe and professional manner.



## Financial Review

Revenue for the year increased by 3.2% to £30.0m (FY17: £29.1m) and adjusted operating profit<sup>1</sup> for the year was 21.9% higher at £5.3m (FY17: £4.3m). At constant exchange rates<sup>3</sup> and adjusting for the closed Professional Services division and K2C in the prior year, revenue increased by 7.6%. Adjusted operating profit<sup>1</sup>, after adjusting for the loss from the closed Professional Services division in the year ended 31 March 2017, increased year on year by 5.0%. Earnings per share increased by 80% to 1.08 pence per share (FY17: 0.60 pence per share).

### Divisional performance

Revenue in the UK, which represents 63% (FY17: 67%) of total Group revenues, decreased by 2.2% to £18.9m (FY17: £19.4m). The US represented 37% (FY17: 33%) of total Group revenues and revenues increased in the period by 14.0% to £11.1m. Revenues in local currency and excluding the closed Professional Services division grew by 32% year on year.

### Gross Profit

The Group's gross profit increased year on year by 12.6% to £22.9m (FY17: £20.3m), with gross profit margin increasing in both the UK and the US division. Margins within the US division have typically been lower than those seen in the Eckoh UK business due to the nature of its offering, however, as anticipated the gross profit margin has increased to 61% (FY17: 43%). As the business mix continues to move to Secure Payments, the growth area of the division, it is anticipated that we will continue to see gross margins increase to the same extent they have increased in the underlying business, after the closure of the Professional Services activity, because of this increased proportion of high margin activity, it is anticipated that reported gross margins for the Group should increase.



	FY18 (UK) £000	FY18 (US) £000	FY18 Total £000	FY17 (UK) £000	FY17 (US) £000	FY17 Total £000
Revenue	18,937	11,068	30,005	19,371	9,707	29,078
Gross Profit	16,101	6,784	22,885	16,133	4,194	20,327
Gross Profit %	85%	61%	76%	83%	43%	70%

### Profitability Measures

Adjusted operating profit<sup>1</sup> increased for the year by 21.9% to £5.3m (FY17: £4.3m) and adjusted EBITDA<sup>2</sup> for the year increased by 13.3% to £6.5m (FY17: £5.8m). In the previous year there were losses of £0.7m incurred for the now closed Professional Services division. In the year ended 31 March 2018, the deferred consideration in relation to the K2C earn-out has been released. Profit before tax increased from £1.6m to £2.4m, an increase of 50%.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
<b>Profit before tax</b>	<b>2,435</b>	1,623
Amortisation of acquired intangible assets	2,329	2,186
Legal fees and settlement costs	595	-
Transactions relating to acquisitions	-	319
Expenses relating to share option schemes	793	24
Interest receivable	(34)	(43)
Change in contingent consideration	(975)	-
Finance charges	118	205
<b>Adjusted operating profit<sup>1</sup></b>	<b>5,261</b>	4,314
Amortisation of intangible assets	325	433
Depreciation	914	1,059
<b>Adjusted EBITDA<sup>2</sup></b>	<b>6,500</b>	5,806

### Legal fees and settlement costs

As disclosed in last year's Annual Report and the Interim Statement in November 2017, in the financial year ended 31 March 2017, the Group received a claim from a client that had discontinued a project related to the closed Professional Services division. The Group has vigorously defended the claim, however, in the year ended 31 March 2018 we have chosen to settle the claim and bring this matter to a close. The settlement and legal costs were £0.6m. The Group is not aware of any other contractual commitments from the closed professional services division.

### Statement of financial position

Whilst Eckoh continue to innovate by developing new products and features such as those detailed in the Chief Executive Officer's review, little of this is capitalised on the balance sheet with only £0.3m (FY17: £0.2m) added in the year to the value of the intangible fixed assets of the Company. Whilst taking a prudent approach to capitalising salary cost reduces reported profit, management believes this approach gives an accurate reflection of the trading performance of the Company.

### Change in contingent consideration

For the financial year ended 31 March 2018 finance income includes a credit of £975k relating to the K2C contingent consideration.

### Finance charges

For the financial year ended 31 March 2018, the net interest charge was £118k (FY17: £205k). In the full year ended 31 March 2017, included within finance expenses was a charge of £63k relating to the unwinding of the discount on the contingent consideration for the acquisition of K2C. No such charges were incurred for the financial year ended 31 March 2018.

### Taxation

For the financial year ended 31 March 2018, there was a tax credit of £225k (FY17: 184k charge). This is principally due to the US tax rate of 21% enacted at the Balance sheet date of 31 March 2018. This resulted in a tax credit for deferred tax of £350k in the period. Further details are included in note 10.

### Earnings per share

Basic earnings per share was 1.08 pence per share (2017: 0.60 pence per share). Diluted earnings per share was 1.03 pence per share (2017: 0.56 pence per share).

### Cashflow and liquidity

Net cash at 31 March 2018 was £3.6m, an improvement of £3.4m from 31 March 2017 of £0.2m. In the period the Company has repaid £1.3m of the loans outstanding to Barclays Bank in accordance with the terms of the loan. During the year, there has been a net cash inflow for trade debtors and trade creditors of £0.4m (FY17: (£3.4m) cash outflow). In addition, a dividend payment of £1.2m was made in November 2017.

### Dividends

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2018 of 0.55 pence per ordinary share be paid to the Shareholders whose names appear on the register at the close of business on 28 September 2018, with payment on 26 October 2018. The ex-dividend date will be 27 September 2018. This recommendation will be put to the Shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.4m.

### Prior Year Restatement

This company has reviewed the way the goodwill and intangible assets and the related deferred tax liability for the acquisition of PSS Inc in the year ended 31 March 2016 has been accounted for. At the point of acquisition on 17 November 2015, the Goodwill and intangible assets of both the US and UK business of PSS were translated into sterling and held in the Company. On further analysis the proportion of the Goodwill and intangible assets relating to the US business of PSS Inc (87% of the business) should have been held in US dollars in accordance with IAS 21. Note 1 provides further details of the restatement to the statement of financial position and Other Comprehensive Income.

**Chrissie Herbert**  
**COMPANY SECRETARY**  
13 June 2018

- Adjusted operating profit is the profit before adjustments for finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions.
- Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is the profit before tax adjusted for depreciation, amortisation, finance income, finance expense, legal fees and settlement costs, and expenses relating to share option schemes and acquisitions.
- At constant exchange rates (using last year exchange rates) and excluding the closed Professional Services divisions and acquired K2C for the prior year.





# Business Model

# 02

## Eckoh Experience

Eckoh's solution portfolio is all about improving customer contact for payments and engagement. To reflect this, we now present our portfolio as an Experience Portal, where customers can take whatever level of service or solution they need, at the time they need it. The added value comes from the flexible access our customers have to the wide range of self-service, agent-assisted and support options that we provide.

For any business providing a customer engagement solution today, their delivery needs to be consistent, responsive and seamless if they are to deliver the experience that customers now expect.

This can be hard to achieve using individual solutions, especially if added to legacy infrastructure, and hampers an organisation's ability to evolve to meet changing customer preferences.

**The solution? A true Omni-Channel portal that incorporates every engagement channel available and future proofs a contact centre for the journey ahead – no matter what sector the organisation operates in.**

**“With all the solutions available from just one place it makes life so much easier - for our customers, their agents and end users.”**



## Card and Data Security

Organisations that take card payments in their contact centres will be exposed to sensitive card and personal data. This makes them vulnerable to data theft and fraud. This is precisely the challenge that we address with our patented secure payment solutions.

Criminals continue to exploit the weakest areas and Card-Not-Present (CNP) crime – where the card holder is not physically visible to the merchant – is rising and expected to reach £680 million in the UK by 2021<sup>1</sup>. With over a third of this taking place in contact centres there is a clear need for solutions to address this issue.

**The current market is particularly impacted by two pieces of regulation:**

### 1. PCI DSS (Payment Card Industry Data Security Standard):

This is an industry standard which the card companies require organisations to comply with if they store, process, and/or transmit cardholder data. Compliance also brings customer confidence and helps reduce the risk of card fraud.

### 2. General Data Protection Regulation (GDPR):

Personal information such as name and address, email, national insurance number and bank details are also valuable to criminals. GDPR, which became law in May 2018, is intended to improve data protection and increase the accountability for those that suffer data breaches. Using an Eckoh secure payment solution can assist a business in complying with the regulation.

Eckoh have long advocated the removal of an entire contact centre from the scope of a PCI DSS audit through 'de-scoping'. This ensures that the sensitive data does not enter the organisation's environment. If the data is not there it cannot be stolen.

**CallGuard** – A secure payment solution for payments taken over the phone in a contact centre via an agent, which provides PCI DSS compliance and fraud risk reduction. CallGuard, which is patented in the UK and US, can de-scope all or part of the contact centre from a PCI DSS audit, requires minimal integration with an organisation's systems and is the simplest solution available today.

1. National Audit Office Online Fraud 2016



**EckohPAY** – A secure payment solution that enables customers to self-serve by making an automated payment via the phone, web, mobile, app or SMS at any time of day, on any device.

**Alternative Payment Methods** – Digital Wallets or eWallets are fast gaining in popularity so we have extended our award-winning Apple Pay by phone solution to include Google Pay and PayPal. This gives our customers and their end users access to the latest payment methods and extends Eckoh's secure solutions into non-card-based payments.

**Live Chat Pay** – Eckoh are the only PCI DSS level 1 service provider that can enable a secure payment to be taken within a web chat session, whether this is Eckoh's own web chat solution or another provider. This increases sales conversions by enabling payment to be taken within the consumer's channel of choice.

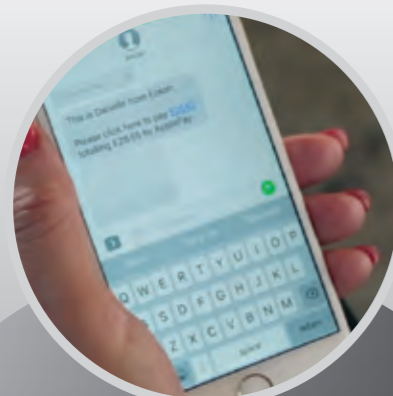
**PCI DSS contact centre** – We have been operating our own contact centre for over 10 years, which has given us unrivalled insight into the challenges these operations face. We use our own solutions to meet these challenges, so we know that they work.

**“If the data is not there it cannot be stolen.”**

## Customer Engagement

Today, people want their home, work and social lives to work seamlessly. When life is disjointed, they get frustrated. Consumers expect the ability to choose any engagement channel and to change that channel seamlessly at any stage of their customer journey.

Poor experiences with organisations are no longer tolerated, which is why customer engagement is the most important differentiator among businesses today, regardless of the industry sector. Delivering consistent and amazing customer engagement means the right message, at the right time, to the right device - all from one place.



Today the Eckoh Experience Portal offers all this, with a wide range of tools for improving customer engagement:

**Artificial Intelligence** – Provides a deeper understanding of what a customer is trying to achieve and the sentiment behind their enquiry.

**Chatbot** – This automated virtual assistant can deliver customer service at any time of day, on any device. It can successfully resolve simple and repetitive enquiries that would otherwise have to be handled by a live agent.

**Co-Browsing** – By securely sharing their computer screen an agent can see where the customer is and guide them to where they need to be.

**Email Management** – This powerful system brings all inbound emails and web forms securely, intelligently and efficiently into the agent console. It can prioritise and assign mails using a variety of rules to maximise service and efficiency.

**ID&V** – Automated authentication of a customer helps a live agent or another automated service to verify the person is who they say they are and reduce the time to serve.

**Instant Call-Back** – Prevents an organisation's customers being kept waiting in a queue by offering to call the customer back when it's convenient to them.

**Interactive Response** – This is the underlying engine to all self-service solutions for phone, web, mobile and apps.

**Knowledge Base** – This acts as the brain behind any automation tool. It also empowers agents with the information at their fingertips – helping them to accurately and speedily resolve queries.

**Live Chat** – Allows organisations to increase online sales and improve customer care as well as take a secure payment.

**Natural Language** – Advanced speech recognition that asks callers 'how can I help you?' and lets customers use their own words to state what they want.

**Social Media Agent** – Lets organisations see all their profiles in one place and respond rapidly to their customers social conversations, as well as allowing them to know what their customers are saying anywhere online.

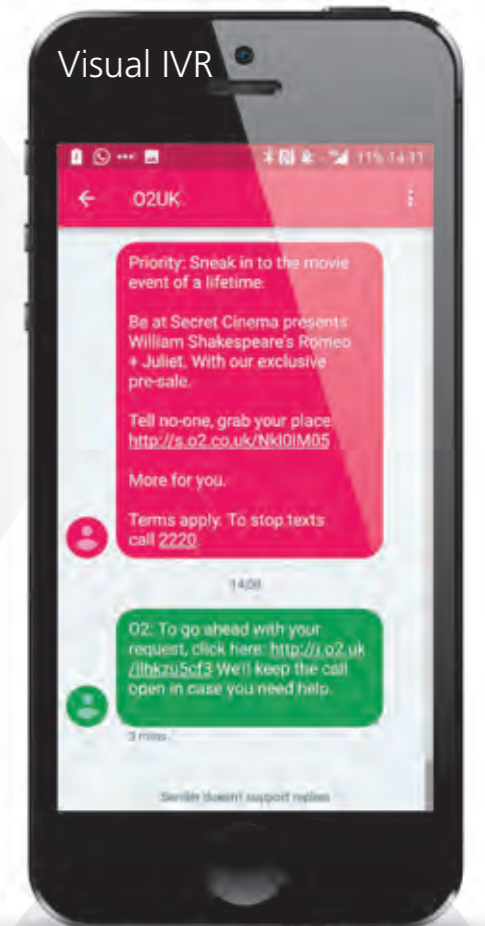
**Visual IVR** – Combines spoken and visual interaction for smartphone engagement.

**Workflow** – Provides contact centre agents with all the information and tools they need to respond and resolve queries accurately and quickly.



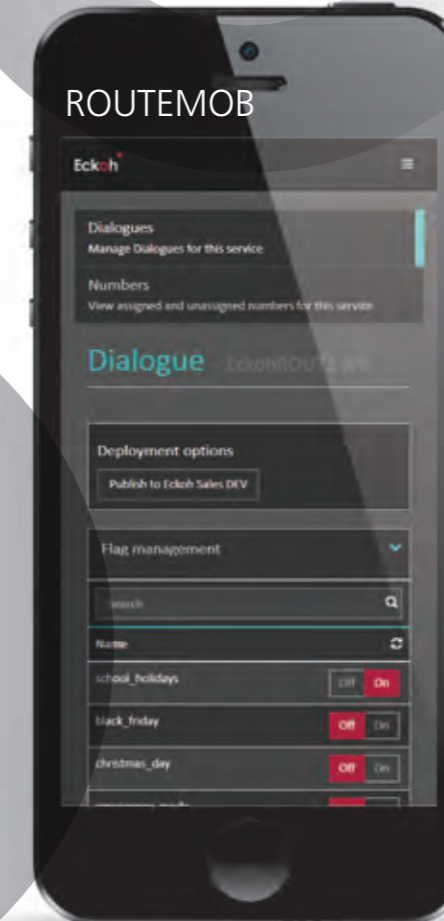
Chatbot

**Call Routing** – Automating the routing of calls means that through simple, natural language control a contact can be directed to the right place for help – that could be an IVR tool or a live agent.



Visual IVR

**Visual IVR** – Combines spoken and visual interaction for smartphone engagement.



ROUTEMOB

**Chatbot** – This automated virtual assistant can deliver customer service at any time of day, on any device and from anywhere. It can successfully resolve simple and repetitive enquiries that would otherwise have to be handled by a live agent.

“**Delivering consistent and amazing customer engagement means the right message, at the right time, to the right device - all from one place.**”

## Coral – Agent Desktop

A contact centre agent's desktop is the driving force behind an organisation's customer experience. We recognised that too often agents had to login and then operate multiple systems to be able to have the information necessary to handle their customer's enquiries. This means that it takes longer than it should for agents to get the answers they need to resolve queries or complete sales. Every time agents switch between screens or systems they lose time and focus, which impairs customer experience.

Traditional agent desktops weren't built to adapt to changing business requirements because it was never anticipated that technology advances would happen as quickly as they did. Consequently, these legacy agent desktops can end up damaging profit, negatively impact security and are prone to errors in transferring data.

**Coral is a single, unified agent desktop solution that creates a presentation layer so agents login just once and easily navigate between multiple systems. Coral integrates with any or multiple CTI, ACD and CRM products, and as an HTML 5 web application with no software to install at the agent seat it's scalable, quick to deploy, secure, simple to maintain and easy to change. The features, graphics or layout can be configured for each tenant, business group, skill group, or specific user and with open APIs, it can even integrate with legacy and custom-built technologies.**

Its stability and rapid deployment make it ideal for any contact centre, but particularly for large enterprises where there are thousands of agents as it can be rolled out in months, not years.

### Here's what makes it special...

- **Only desktop solution available** on any device
- **Designed with security as a key requirement** - It's the only agent desktop solution that can offer PCI DSS compliance for contact centres as a core function.
- **Scale & flexibility** - Coral is the only desktop browser solution deployed at scale because it's cloud-based and has zero-footprint.
- **It's the only solution** that can accept card payments securely via chat, voice or phone.
- **Coral is only available via Eckoh (under exclusive licence from Coral)** - So users get access to Eckoh's other market-leading Customer Engagement and Secure Payment solutions.

In short, Coral reduces contact centre operating costs, increases efficiency, joins up the technology, enhances the customer experience and improves agent attrition.



**Many of the world's largest organisations currently use the Coral Desktop solution.**



## Third Party Support

As a leading provider of contact centre technology, Eckoh has identified a niche in the market for providing contact centre support.

Frequently Eckoh encounters organisations who are being pushed into upgrading their infrastructure to a vendor's latest version. When they resist they find that maintenance and support costs for the existing system rise sharply while the actual support drops off.

**Eckoh provides a real alternative to this dilemma by providing vendor-neutral, third party contact centre support to a wide range of vendors – and at a lower cost. This helps our customers to maximise their investment in their contact centre technology and gain the advantage of keeping a stable platform working for longer.**

We believe that organisations should have the choice to remain with their existing contact centre infrastructure if it provides them with a stable, reliable service. They should also be able to manage multi-vendor technology environments without the need for multiple support contracts. We also believe that an organisation should make the transition in a timeframe that suits them – rather than the vendor. Until then, we can provide a far better service at a lower price.

Companies across the world trust Eckoh's specialist contact centre systems integration expertise. From US and Europe, to Asia and Australia – millions of customers and hundreds of companies use platforms designed and managed by Eckoh - delivering complete customer interactions and experiences to support contact centre platforms and applications. Eckoh's competencies cover all the major contact centre technologies and provide legacy support and business-as-usual through to the transition of existing architecture and contact centre decommissioning.



**No one who has ever come to Eckoh for contact centre support has ever gone back to their previous provider.**



## Ideal World

Ideal World is incredibly passionate about delivering a dynamic and entertaining shopping experience via their multi-channel approach to TV and web retailing.

Ideal World handle inbound contacts through contact centres in the UK, India and the Philippines. Their biggest challenge was to manage the huge peaks and troughs in their call volumes, driven by the popularity of items sold on their TV or web channels. They wanted to improve the ordering process to make it easier for their two million shoppers to order from their TV channel or website.

Eckoh's solution for Ideal World was to implement a call handling solution that would route calls to any contact centre based upon agent availability, to avoid customers queuing, or connect them to an automated purchasing system. Since the initial implementation Eckoh have continued to deliver additional services to suit Ideal World's business including automated caller identification to speed up calls and improve routing, as well as deploying Live Chat and Social Media tools.

Today, Eckoh's solutions handle millions of contacts for Ideal annually enabling full utilisation of valuable live agents and prevent potential sales being lost. The solutions have successfully reduced agent handling time, increased customer satisfaction and provided a solution to those shoppers who are happy to self-serve.

***Eckoh have played a crucial role in helping us to fulfil our customer service strategy. We are extremely happy with the services they have delivered over many years and we're expecting that relationship to continue to many more.***

David Peck  
HEAD OF CUSTOMER SERVICE  
Ideal Shopping



## Thames Water

Every day, Thames Water serves 15 million customers across London and the Thames Valley. Increased competition and changes in regulation led Thames Water to seek a transformation in their business to provide better experiences to retain and attract customers. They also needed to make their customers payments secure and so required PCI DSS compliance.

Thames Water chose Eckoh's CallGuard solution to completely remove its entire contact centre from the scope of the PCI DSS audit. The CallGuard solution ensures that no sensitive data enters Thames Water's environment, which means there is no data there for anyone to steal or mis-use.

In 2017, Thames Water also adopted Eckoh's PCI DSS solution for Apple Pay over the phone – extending their payment options to include the very latest payment methods.

**Today, Thames Water and their customers benefit from:**

- The knowledge that data and payments are secure
- Reduced risk of fraud
- The ability to use alternative payment methods
- Customer and agent interaction is maintained throughout the call

***Eckoh met all the requirements and their solution was what we needed. We found that there wasn't another partner that could do that for us.***

Stuart Ledger  
CHIEF FINANCIAL OFFICER FOR RETAIL  
Thames Water



## BMW

BMW Group employs around 8,000 people directly in the UK with an additional 11,000 in its 147-strong retailer network representing BMW and MINI brands. The UK is BMW Group's fourth largest sales market in the world.

The UK has an important role to play within the BMW Group. It is the only place in the world where all three of BMW Group's brands – BMW, MINI and Rolls-Royce Motor Cars – are represented by manufacturing operations.

BMW wanted to offer customised customer support to people visiting their new eRetail platform where people can configure their car online and begin the purchasing journey.

Eckoh provided an Omni-channel help solution using Web Chat, Instant Call-back and Email. The service integrates with BMW's other digital offerings so that with just a few clicks, prospective BMW owners can build their perfect car online, arrange a test drive if necessary, agree financing options and payment method, and get a trade-in value for their own car before finalising the delivery date.

**Today BMW are benefitting from:**

- 95% adoption by BMW UK retailers following successful trial
- Over 20,000 calls and chats handled in the first two months
- 80% of customers who completed the after-engagement survey and were very satisfied with the help they received



***Eckoh provided a flexible and robust front-end integration and were able to work as if they were part of our digital team.***

Paul Kester  
BMW, UK



# Corporate Responsibility 03

Eckoh is committed to running the business in an ethical and responsible manner, and we focus our efforts on business ethics, employee engagement, our local community and the environment.

## Business Ethics

**Eckoh has the following policies in place with respect to business ethics:**

**Whistle-blowing** – we are committed to ensuring that practices and procedures in respect of all employees, business partners and clients are of the highest quality. Employees are encouraged to raise any instances of irregular conduct in the workplace.

**Health and safety** – we take all necessary steps to ensure the health and safety of all employees, contractors and visitors, through the provision and maintenance of a safe working environment.

**Dignity at work policy** – all employees of Eckoh have an important part to play in the overall success of the business and everyone is respected and valued for their contribution at every level. At Eckoh, we foster and promote a healthy, collaborative and supportive environment. We encourage all our employees to work together in harmonious manner that encourages self-development, team success and knowledge sharing. Eckoh is committed to protecting the dignity and wellbeing of everyone and encourages practises that take into account the rights of all individuals and seeks to eliminate all forms of unacceptable behaviour. It is in our best interests to promote a safe, healthy and fair environment where people are given every opportunity to excel and thrive in their workplace.

**Equality & diversity** – we are committed to an active equal opportunity policy, from recruitment and selection through to training and development, performance reviews and promotion. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of age, disability, gender, gender reassignment, pregnancy and maternity, sexual orientation, race, ethnic origin, or hours of work.

**Anti-bribery** – we set out clear standards for ethical relationships and conduct to be maintained by employees and contractors and conduct our business in accordance with the highest ethical standards. We do not offer or accept bribes.

**Disciplinary & grievance procedures** – we provide a fair and consistent method of dealing with disciplinary problems and treat misconduct with appropriate action. We ensure we treat any grievance an employee may have relating to their employment in a fair and reasonable manner.



## Employee engagement

**Eckoh believes that its employees are the source of our competitive advantage and a valuable asset to the business. We recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain talented people of the highest calibre.**

In the UK offices we've created an award-winning, colourful, dynamic and collaborative working environment where employees find flexibility, an open plan office and the environment to thrive in their roles.

We embrace technology to enable remote working, teleconferencing and effective collaboration across the UK and US divisions.

In the US a large number of employees work remotely, communication is key for them. There is a formal communication structure, from weekly calls involving all employees to monthly presentations updating all US employees on the US performance. Even though the team is remote, effort is placed on recognising significant milestones both in people's working lives and their personal lives and the team ensure they celebrate success. On an annual basis, the whole team is brought together for an annual conference. There is also an annual Sales team conference, which is led by the US management team and focuses on the next year ahead including product training for the Sales team. The CEO and CFO also attend the Sales Conference and the Annual US Conference.

We actively encourage our employees to share their views and preferences – positive and negative -, so that we can address these to deliver the most vibrant, dynamic and enjoyable workplace. In the UK there are also more informal communications that take place, such as the CEO and CFO lunch, to which a number of employees are invited every two months. This is an informal environment for employees to raise feedback. In addition, our regular social and team building events give us all a chance to relax together.

At Eckoh, we strive to create a really positive working environment to help our employees enjoy their work, be successful in their role and deliver on business goals.

***Eckoh believes that its employees are the source of our competitive advantage and a valuable asset to the business.***

## Employee recognition

Our employees deserve recognition and we do this through our 'RAVE' programme (Reward and Value Everyone), which encourages employees, both in the UK and US, to nominate their peers to receive an award. We also run a twice-yearly Employee Award and have an annual Long Service Award recognising loyalty and commitment to us.

## Benefits

We employ around 300 employees in total, with approximately 250 employees in the UK and 50 employees in the US. The benefits packages are managed separately in each country to ensure that we attract the talent we need in each of the divisions.

In the US, our employees participate in a Health Benefits Plan that provides a valued level of healthcare.

Employees are also given the option to join pension plans appropriate to the UK and the US. In the UK this involves a Company approved pension plan with minimum employer and employee contributions and in the US a 401(k) plan. Since April 2014 in the UK, all employees, except those that have expressly opted out, are auto-enrolled into a qualifying pension plan.

In September 2016, we introduced the Eckoh plc Share Incentive Plan ("the plan"). The Scheme provides employees based in the UK with the opportunity to acquire shares in Eckoh plc. Shares are purchased on behalf of the employee from amounts sacrificed from their salary on a monthly basis and matched on a two for one basis by the Company. Any shares acquired will be held in a trust in accordance with the terms of the Plan. In order to maximise the tax benefits available, the employee must remain employed with the company and hold the shares within the Trust for a minimum of five years. 53 employees currently participate in the scheme out of 250 eligible in the UK.



## Training & development

Eckoh's strength lies in the expert knowledge of our people. It is vital that our employees understand, and are passionate about, our products and technologies. Every new employee to Eckoh undergoes a detailed and thorough induction plan over a three-month period. The induction not only welcomes them to the business, but it provides them with a comprehensive overview of Eckoh, insight into our market proposition, our range of products, the security requirements of Payment Card Industry Data Security Standards (PCI-DSS), the organisational structure and our commercial model. Every induction plan is tailored to the individual's role, setting them up to be successful in their new role. In the UK, after three months, every new employee will have the opportunity to meet with the CEO and CFO to give feedback on their experiences of Eckoh.

We encourage our people to continue to develop their skills and keep up to date with new technology, standards and processes. Training needs are identified through the regular check-ins team members have with their line managers.

One of the Eckoh values is to always be inspiring, to encourage ideas and fresh thinking, continually searching for new innovative and added value solutions. To encourage our Developers and provide a healthy innovative environment, we organise regular 'Thinking and Drinking' sessions, where either team members or external parties will share technology best practises or they cover specific technical expertise.

We encourage young school leavers, who may have been working in our UK contact centre, to progress from their roles as agents in the contact centre to junior roles in the organisation. We have a number of success stories, where employees have progressed from these junior roles into more senior roles over a period of time.

Our investment in our employees helps to retain and motivate our people, as well as enabling high achieving employees to progress and flourish in their role.

## Health, safety, security, wellbeing and accessibility

Our employee's health matters to us and so the Company continues to prioritise the provision of healthy working environments for our employees and the health, safety, security and wellbeing of the people on our premises are our highest priority.

For employees or guests with reduced mobility, our UK and US offices are fully accessible with elevators to each floor and disabled parking spaces.

In the UK, for those who choose to cycle, or run, as part of their daily commute we have provided showers for their use and convenience. We actively encourage a healthy lifestyle providing fresh fruit in the office, reflexology, Pilates, meditation classes, sports massage services as well as discounted gym memberships and cycle to work schemes. Our health assessments for blood pressure and flu jabs, also encourage employees to keep tabs on their health.

## The British Thyroid Foundation

We were delighted to be able to raise £510 in December 2017 for our nominated Christmas Charity, The British Thyroid foundation. The British Thyroid Foundation help with all thyroid conditions which currently affect 1 in 20 people. An underactive thyroid can leave you exhausted and unable to lead a normal life. The British Thyroid Foundation provides those with Thyroid conditions much needed information on treatments, the thyroid and other pieces of advice, they also help with research in to treatment options.

## Recycling within the community

Eckoh gladly donated office furniture and supplies to various local charities and businesses. We believe in re-using and recycling equipment that could be of significant use and value to others.

## Personal charities

The Company believes in making donations to charities that are important to our employees. For this reason we have donated £500 to various charities who have supported our employees and we actively encourage and support our employees to raise money. During the year employees raised £78 for Save the Children through a Christmas Jumper day and £400 for Children in Need with a sponsored silence and a Bake Sale.



## In the environment

Although operationally we do not manufacture products, Eckoh understands the impact our business can have on the environment. From the efficient lighting in our offices to the fair-trade coffee in our kitchen areas, we carefully consider the purchases we make and encourage our suppliers to be equally considerate in the way they conduct their business.

Eckoh has taken the following steps to ensure that we are doing all we can for the environment and to set a good example to those who we come into contact with:

- Reduced business travel through the use of web and phone-based conferencing systems
- Energy efficient and motion sensor lighting installed in our offices
- Comprehensive recycling programs established in all possible locations
- Photocopiers set to double-sided, black and white printing to reduce paper/ink use
- Provided reusable cups and glasses to reduce waste associated with disposable cups
- Encouraged alternative methods of transport to travel to and from work e.g. cycle to work scheme.
- In the current year we will be converting our lights to LED, this will reduce the electricity the Company uses on an on-going basis

## Communities

**At Eckoh, our employees are encouraged and supported to give something back to our local community. We do this through supporting local and national causes, raising money for charity and offering employees the opportunity to attend a volunteering day where they can really make a difference.**

***The team worked hard all day and helped us with some much-needed jobs. They had great fun while making a difference.***

## Sunnyside Rural Trust

Eckoh were pleased to support a local charity by organising for 14 keen volunteers to work at Sunnyside Rural Trust on a team building day organised by Connect Dacorum.

Sunnyside Rural Trust is a charity based in Berkhamsted and Hemel Hempstead and offer training and work skills for young people and adults with learning disabilities. Gemma Vine from Sunnyside Rural Trust was delighted with the Group from Eckoh. "The team worked hard all day and helped us with some much-needed jobs. They had great fun while making a difference."

Some of the UK Eckoh team cleaned out chickens, some cleared around the pond to help the local wildlife and some made up hanging baskets which will be displayed along Kings Langley High Street over the summer. All of them made a positive impact on the charity and came away from the day with a real sense of achievement and able to see the fruits of their labour.



# Corporate Governance

# 04

## Board of Directors

### Independent Directors

	<p><b>Christopher Humphrey BA MBA FCIMA</b> <b>Non-Executive Chairman</b></p> <p>Appointed to the Board – 21 June 2017 Appointed Chairman – 21 September 2017</p> <p><b>Committee Membership:</b> Nominations (Chair), Audit, Remuneration</p>	<p><b>Skills &amp; Experience:</b> Christopher is currently a Non-Executive Director, Senior Independent Director and Audit Chairman of AVEVA Group plc and The Vitec Group plc and a Non-Executive Director of SDL plc. Christopher was formerly Group Chief Executive Officer of Anite plc from 2008 until August 2015, having joined Anite in 2003 as Group Finance Director. He has held senior positions in finance at Conoco, Eurotherm International plc and Critchley Group plc. He was previously a Non-Executive Director at Alterian plc.</p>
	<p><b>Guy Millward</b> <b>Non-Executive Director</b></p> <p>Appointed to the Board – 1 October 2016</p> <p><b>Committee Membership:</b> Audit (Chair), Nominations, Remuneration</p>	<p><b>Skills &amp; Experience:</b> Guy has held a number of senior finance positions with both publicly listed and privately held technology companies. Guy's roles include CFO at Imagination Technologies Group plc, Group Finance Director at Morse plc, Alterian plc and Kewill plc and CFO at Advanced Computer Software Group plc from 2013, until its sale to Vista Equity Partners in mid-2015. Guy qualified as a chartered accountant with EY in 1989.</p>
	<p><b>David Coghlan</b> <b>Non-Executive Director</b></p> <p>Appointed to the Board – 1 December 2017</p> <p><b>Committee Membership:</b> Remuneration (Chair), Audit, Nominations</p>	<p><b>Skills &amp; Experience:</b> David is currently Chairman of Synectics plc, an AIM-quoted provider of high-end electronic security systems, and a Non-Executive Director, and Chairman of the Audit Committee, of SCISYS plc, a software company also quoted on AIM. He is also Chairman of Quadrant Group limited, a leading independent supplier of aviation simulation and training, with subsidiaries in the UK and US. He has extensive experience with technology companies in the business-to-business field. David was previously a partner at Bain &amp; Company, a leading strategy consulting firm.</p>

### Executive Directors

	<p><b>Nik Philpot</b> <b>Chief Executive Officer</b></p> <p>Appointed to the Board – 2 February 1999 Appointed to Chief Executive Officer – September 2006</p>	<p><b>Skills &amp; Experience:</b> Nik is a founder of Eckoh with more than 30 years' experience in the voice services industry; he was originally at British Telecom before establishing a number of start-up businesses in the telecoms and technology sectors. As CEO of Eckoh, he has created a leading provider of Secure Payment solutions and Customer Contact services for the contact centre industry.</p>
	<p><b>Chrissie Herbert</b> <b>Chief Financial Officer</b></p> <p>Appointed to the Board – 2 May 2017</p>	<p><b>Skills &amp; Experience:</b> Chrissie has held a number of senior finance positions with both publicly listed and privately held businesses. She gained payments experience from PayPoint plc, where she was UK &amp; Ireland Finance Director. In addition, having qualified as a Chartered Accountant at KPMG, Chrissie gained considerable executive experience at a number of high growth, consumer facing businesses including Collect+ and Travelodge Hotels Ltd.</p>

## Chairman's Report



Dear Shareholder,

At Eckoh, the Board embraces the collective responsibility for the long-term success of the Group and is committed to providing entrepreneurial leadership through good governance and accountability for the benefit and protection of our Shareholders.

In this governance section we outline how we have complied with the UK Corporate Governance Code (the Code) and where our policies depart from the Code, an explanation of the reasons for that departure. During the current year, with the recent release of the Quoted Companies Alliance Corporate Governance Code and the impending changes to the Financial Reporting Council UK Corporate Governance Code, we will review the Corporate Governance Code that is most appropriate to the Group.

The Board held a one-day strategy session in February 2018. The strategic plan was presented by Senior Management, representing both the UK and US businesses. On an ongoing basis the Board ensures that the strategic plan is taken into consideration in its decision-making process.

During the year there were some changes to the Board. On 21 June 2017 I was appointed to the Board and as was notified in the last Annual Report, Chris Batterham, Chairman retired from the Board on 20 September at the 2017 Annual General Meeting. Following Chris's retirement as Chairman I was appointed Chairman on 20 September. David Coghlan joined the Board on 1 December 2017 and Peter Simmonds retired from the Board on 14 December 2017. David was appointed Chair of the Remuneration Committee on 17 January 2018. During the year the number of independent directors for the purposes of the Code were met.

Details of the search process led by the Nominations Committee which resulted in my appointment and David's appointment are set out on page 33.

In accordance with the Code, the Board delegates certain roles and responsibilities to its Audit, Nominations and Remuneration Committees whilst retaining overall responsibility. During the year the Audit Committee has focused on the impact of the new accounting standard *IFRS 15: Revenue from Contracts with Customers* (see page 35); the Nominations Committee led the Non-Executive Director appointments; and the Remuneration Committee has overseen the changes made to the Executive remuneration and the Performance Share Plan (PSP), as approved by the Shareholders at the 2017 AGM.

We are confident as a Board that the correct strategy has been adopted and that our culture of good governance and accountability will enable us to work towards delivering the strategic goals while maintaining Eckoh as a sustainable business. We hope that this Governance Report provides you with insight into how governance operates in the Group.

**Christopher Humphrey**

**CHAIRMAN**

13 June 2018



“ We are confident as a Board that the correct strategy has been adopted... ”

## Compliance statement

The Directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the Group. This statement describes how the principles of corporate governance in the Code are applied by the Company.

The Board considers that it has complied with the provisions of the UK Corporate Governance Code, (the Code) as issued by the Financial Reporting Council throughout the year, with the exception of the following areas:

- There is not a Senior Independent Non-Executive Director due to the size of Eckoh, however, it is the Board's intention to appoint an additional Non-Executive Director to the Board during the current financial year;
- The Board have not carried out an evaluation of the Board's performance. In the past year there have been a number of changes to the Non-Executive Directors and the Chairman. Therefore, we propose to carry out a formal evaluation of the Board in the coming year; and
- All of the Directors will not be putting themselves forward for re-election in accordance with the Code, instead we will comply with Eckoh's Articles of Association. Further details of the Director's who will be re-elected at the AGM are on page 32.

Information on significant Shareholders in the Company has been included in the Directors' report on page 44.

## Leadership

The Board is collectively responsible for the long-term success of the Company and provides effective leadership by setting the strategic aim of the Company and overseeing the efficient implementation of these aims in order to achieve a successful and sustainable business. In practise the Executive Directors prepare and present the strategic plan to the Board, which the Board challenges in order to determine the strategic priorities. The Board also ensures that the appropriate framework of controls is in place to enable the proper assessment and management of risks. The Executive Directors are responsible for the management of the business and implementing the Board's decisions.

## Meetings

The Board and its Committees met regularly throughout the year with the meetings scheduled around key dates in the Company's corporate calendar. There were eleven scheduled meetings during the year, and one meeting at short notice. The table below shows Directors' attendance of Board and Committee meetings. Where a Director is unable to attend a meeting, he or she receives and reads the papers for consideration at that meeting and will provide input through the Chairman, Chief Executive Officer, Chief Financial Officer or Company Secretary as appropriate.

## Directors' meeting attendance 2017/18

	Board		Audit		Remuneration		Nominations	
	Scheduled	Short notice	Scheduled	Short notice	Scheduled	Short notice	Scheduled	Short notice
<b>Executive Directors</b>								
Chrissie Herbert	10/10	1/1	3*	-	2*	2*	4*	-
Adam Moloney	2/2	-	1/1*	-	-	-	-	-
Nik Philpot	11	1	3*	-	2*	2*	4*	-
<b>Non-Executive Directors</b>								
Chris Batterham	6/6	-	2/2	-	1/1	-	-	-
David Coghlan <sup>1</sup>	2/3	0/1	0/1	-	1/1	-	2/2	-
Christopher Humphrey	9/9	1	2/2	-	2	-	4	-
Guy Millward	11	0/1	3	-	2	-	4	-
Peter Simmonds	8/8	1	2/2	-	2	-	2/2	-

\* By invitation. The Executive Directors are not members of any of the Board Committees and they attended only the committee meetings to which they were specifically invited.

1. David Coghlan was unable to attend one scheduled Board Meeting and Audit Committee meeting. The Auditors presented their planning approach for the audit and their assessment of the Management's technical assessment of the impact of IFRS 15: Revenue from Contracts with Customers.

At Board meetings the Chairman ensures that effective decisions are reached by facilitating debate and consultations with management and external advisors as necessary. The work undertaken by the Board during the year is set out in the table below:

### The agenda for each Board meeting includes the following as standing items:

- Risk analysis, including by risk, the risk factor and the monitoring mechanism.
- Management report which is prepared and presented by the Chief Executive Officer
- Finance report, which is prepared and presented by the Chief Financial Officer and includes the management accounts and business performance, including forecast as appropriate.

## Divisions of roles and responsibilities

The Chairman is responsible for the leadership of the Board and ensuring the effectiveness on all aspects of its role. There is a clear division of responsibility between the Chairman and the Chief Executive, which is as follows:

### Chairman

Chris Batterham retired from Chairman at the 2017 AGM on the 20 September. Christopher Humphrey was appointed Chairman at the 2017 AGM on 20 September. The below are the roles and responsibilities of the Chairman for the financial year ended 31 March 2018.

- Setting the Board's agenda and ensuring the Board receives accurate, timely and clear information on all matters reserved to its decision and the Group's performance and operations
- Ensuring compliance with the Board's approved procedures
- Chairing the Nominations Committee and facilitating the appointment of effective and suitable members and Chairman of Board Committees.
- Ensuring that there is effective communication by the Group with its Shareholders, including by the Chief Executive and Chief Financial Officer ensuring that members of the Board develop an understanding of the views of the major investors in the Group.
- Promoting the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level.

### Other matters which are covered by the Board routinely during the year include:

- Review of annual report and preliminary announcement
- Review of Executive Director's presentation of the full year results to analysts and investors
- One day strategy session at which the Board considers management's presentation of the Strategic plan and gives its approval.
- Review and approval of the interim management statements for release to the market
- Recommendation of the final dividend
- Company secretarial & legal
- Setting of the Board calendar for the year

### Chief Executive

Nik Philpot is the Chief Executive and he is responsible for running the Group's business by proposing and developing the Group's strategy and overall commercial objectives, which he does in close consultation with the Chairman and the Board.

- Providing input to the Board's agenda and ensuring that reports provided to the Board are accurate, timely and include accurate information.
- Ensuring, in consultation with the Chairman and the Company Secretary as appropriate, compliance with the Board's approved procedures.
- Ensuring that the Chairman is alerted to forthcoming complex, contentious or sensitive issues affecting the Group of which he might not otherwise be aware.
- Providing information and advice on succession planning to the Chairman, the Nominations Committee, and other members of the Board, particularly in respect of Executive Directors.
- Leading the communication programme with Shareholders.
- Promoting and conducting the affairs of the Group with the highest standards of integrity and corporate governance.

### Non-Executive Directors

All the Non-Executive Directors bring considerable knowledge and experience to Board deliberations. Non-Executive Directors do not participate in any of the Company's share schemes or bonus schemes and their service is non-pensionable. The balance and independence of the Board is kept under review by the Nominations Committee.



## Effectiveness

### Composition

The Board is comprised of an appropriate balance of skills, experience, independence and knowledge, which enables it to discharge its responsibilities effectively. The balance of skill and independence creates an environment that encourages the effective challenge and development of proposals on strategy. Currently there are five directors on the Board: Christopher Humphrey, Non-Executive Chairman, two Executive Directors, Nik Philpot and Chrissie Herbert and two Non-Executive Directors, Guy Millward and David Coghlan. The biographies of each of the Directors can be found on page 28. Each of the Non-Executive Directors are independent for the purposes of the Code.

The terms and conditions of appointment of the Non-Executive Directors and the Executive Directors' service contracts are available for inspection at the Company's registered office during normal business hours and will be available at the Annual General Meeting.

The Directors have disclosed all their significant external commitments which the Board has considered and is satisfied that all Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

### Training and support

During the year two new directors joined the Board – Christopher Humphrey and David Coghlan. Both received an induction to the business covering product, technology and finance. In addition, Christopher Humphrey met with a number of the large Shareholders.

Directors are provided with clear and accurate information pertaining to matters to be considered at the Board and its Committee Meetings. The information is provided in a timely manner to ensure an appropriate level of review by each of the Directors ahead of the meetings.

### Evaluation

The Board has not undergone a formal evaluation during the financial year due to the change in composition of the Board. The Board intends to carry out a formal evaluation of the Board during the financial year ended 31 March 2019.

### Re-election

The articles of association require that at the AGM one third, or as near as possible, of the Directors will retire by rotation. Christopher Humphrey, Chairman and Guy Millward, Non-Executive Director will retire by rotation and put themselves forward for re-election at the AGM. In addition, any Director who has at the start of the AGM been in office for more than three years since his last appointment or re-appointment shall retire, there were no such Directors. In addition, David Coghlan, Non-Executive Director will stand for election at the AGM, this being his first AGM.



### Insurance

The Company maintains appropriate insurance cover in respect of legal action against the Directors.

### Conflicts of interest

Under the articles of association, the Board has authority to approve any conflicts or potential conflicts of interest that are declared by individual directors; conditions may be attached to such approvals and directors will generally not be entitled to participate in discussions or vote on matters in which they have or may have a conflict of interest.

## Accountability

### Financial and business reporting

Please refer to the following pages for information on how the Board has carried out the financial and business reporting obligations as stipulated under the Code:

- Page 45 for the Board's responsibility statement setting out the steps taken to present a fair, balanced and understandable assessment of the Company's position and prospects.
- Pages 3 to 22 for the strategy and business model which explains how the Company generates and preserves value over the longer term and the strategy for delivering the objectives of the Company.
- Page 44 for the statement that the financial statements have been prepared on a going concern basis.

### Risk management and internal control

The Board has overall responsibility for establishing and maintaining sound risk management and internal control systems, and for the monitoring of these systems to ensure that they are effective and fit for purpose. The Audit Committee provides support to the Board in this regard and oversees the monitoring process. Further information on the risk management and internal control system is set out in the Audit Committee report on page 34.

The Directors have carried out a robust assessment of the principal risks facing the Group and how these risks could affect the business, financial condition or operations of the group. The explanation of these principal risks including how they are being mitigated can be found on pages 12 to 13.

### Remuneration

Details of how the Company applies the principles of the Code in respect of Directors' remuneration are set out in the Remuneration report on pages 37 to 42.

### Shareholder relations

The Directors consider that the Annual Report and Accounts play an important role in providing Shareholders with an evaluation of the Company's position and prospects. The Board aims to achieve clear reporting of financial performance to all Shareholders. The Board acknowledges the importance of an open dialogue with its institutional Shareholders and welcomes correspondence from private investors.

In addition to the Annual Report and the Company's website, the Annual General Meeting is an ideal forum at which to communicate with investors, and the Board encourages their participation.

The Executive Directors have an ongoing programme of meetings with institutional investors and analysts twice a year for up to two weeks at a time. During the year the meetings took place in June and November and were held in the UK in London and Edinburgh; Paris and Copenhagen, in addition to meetings at the Company's premises and investor conferences in London and Boston. Feedback from these meetings is reported to the Board.

### Committees of the Board

The Audit, Nominations and Remuneration Committees are the formally constituted committees of the Board which deal with specific aspects of the Group's affairs in accordance with the duties and responsibilities formally delegated to them by the Board. The report on the Nominations Committee is set out below and the reports of the Audit Committee and the Remuneration Committee are set out on pages 34 to 37.

### Nominations Committee

The Nominations Committee currently comprises David Coghlan, Guy Millward and Christopher Humphrey, who is the committee Chairman. It met four times during the period and the details of meeting attendance are set out on page 30.

The Committee is responsible for considering and making recommendations on the appointment of additional directors, the retirement of existing directors and for reviewing the size, structure and composition of the Board and membership of Board Committees, which are considered against objective criteria.

### Diversity policy

The Board embraces the supporting principles enshrined in the Code relating to Board diversity, including gender.

The Board is committed to ensuring an appropriate balance of skills, knowledge and experience on its Board. Diversity is a vital part of the continued assessment and enhancement of Board composition and the Board recognises the benefits of diversity amongst its members. The Board will take account of all aspects of diversity in its considerations including, but not limited to gender, industry experience, background and race.

All Board appointments are made on merit, in the context of balance of the skills, experience, independence and knowledge which the Board as a whole requires to be effective, taking account of diversity in the manner described above.

### Succession planning and Board appointments

The Committee, in making recommendations to the Board on the appointment of new directors, adopts a transparent procedure whereby the required skills, knowledge and experience are carefully identified in order to complement and create a balance with the existing skill set on the Board.

During the year, an external search was commissioned, using an independent executive search firm, Blackwood Group plc, which has no other connections with the Company, to search for a Non-Executive Chairman following the retirement of Chris Batterham from the Board at the 2017 Annual General Meeting.



# Audit Committee Report



## Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present our report for the year ended 31 March 2018. In the year under review, the Audit Committee has focused on understanding the impact on the business of IFRS 15: Revenue from Contracts with Customers. The Committee also considered the integrity of the Group's financial reporting and provided advice to the Board that the 2018 annual report and accounts, taken as a whole, is fair, balanced and understandable, providing Shareholders with the necessary information to assess the Company's position, performance, business model and strategy. The activities of the Committee are kept under review in line with regulatory and market developments.

The Audit Committee currently comprises myself, David Coghlan and Christopher Humphrey. David Coghlan joined the Committee on 1 December and Christopher Humphrey joined the Committee on 21 June 2017. The Board considers that I have recent and relevant financial experience in accordance with the Code. Full biographical details of each of the current committee members, including relevant financial experience are set out on page 28.

The key responsibilities of the Audit Committee are as follows:

- monitoring the financial reporting process, including the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance including reviewing significant financial reporting judgements contained therein;
- reporting to the Board on the appropriateness of the significant accounting policies and practices of the Group;
- risk management and the effectiveness of the Group's system of internal financial control;

- overseeing the external auditor including its scope and cost effectiveness and monitoring and reviewing the independence of our external auditors and the provision of non-audit services to the Group; and
- overseeing the quality of the external audit process.

The Committee continues to keep its activities under review in light of regulatory and market developments and met three times during the year. The details of meeting attendance are set out on page 30.

By invitation, during the year, meetings were also attended by the Chief Executive Officer, the Chief Financial Officer and our external auditor, as appropriate.

In order to maximise its effectiveness and as part of the process of working with the Board, the Committee meetings take place on the same day as, but prior to, the Company Board meetings. The Chairman of the Committee reports to the Board on the activity of the Committee.

**Guy Millward**  
**CHAIRMAN AUDIT COMMITTEE**  
 13 June 2018



“As the Eckoh business continues to grow, particularly in the US, the number and size of the contracts have been increasing.”

In the year under review the Audit Committee's activities were as follows:

Topic:	Actions:
Financial reporting	<ul style="list-style-type: none"> <li>Review of the preliminary and interim results announcement and the annual report</li> <li>Review of significant accounting issues (as reported below)</li> <li>Review of the impact of the implementation of IFRS 15: Revenue from Contracts with Customers</li> <li>Consideration of the going concern basis for preparation of the financial statements</li> <li>Advising the Board on whether the annual report and accounts taken as a whole, is fair balanced and understandable</li> <li>Recommendation of the going concern statement to the Board</li> <li>Review of the external auditor reports and the outcomes of the audit process.</li> </ul>
Audit plans	<ul style="list-style-type: none"> <li>Consideration and approval of the internal and external audit plans</li> </ul>
Risk management and internal controls	<ul style="list-style-type: none"> <li>Review of the principal risks and the mitigation of these risks as set out on pages 12 to 13.</li> <li>Review the effectiveness of the Company's internal financial controls by reference to reports from the external auditors.</li> </ul>
Committee governance	<ul style="list-style-type: none"> <li>Review and update of the Audit Committee terms of reference.</li> </ul>

The significant issues considered by the Committee in relation to the 2018 accounts, and how these were addressed, were:

### Contract revenue & revenue recognition

- As the Eckoh business continues to grow, particularly in the US, the number and size of the contracts have been increasing. The Group has applied a consistent accounting policy in relation to revenue recognition. We have in place controls around the delivery of implementations to ensure revenue is recognised appropriately during the implementation phase. Revenue is recognised based on a percentage of completion basis using the direct labour costs incurred to date as a proportion of the total estimated costs required to complete a project. We have in place controls around the project management and the underlying processes supporting the calculation of revenue to prevent errors.

### Goodwill and intangible assets impairment

- The Group has goodwill and intangible assets as a result of the acquisitions for the Veritape, PSS and Klick2Contact businesses over the last few years. On an annual basis the Group undertakes an impairment review of goodwill and intangible assets for each cash generating unit (CGU) using cashflow projections.

### Management override of controls

- We are satisfied adequate controls are in place and use the results of the external audit and the internal reporting mechanism to assess this on an on-going basis.

### Impact of IFRS 15: Revenue from Contracts and Customers

The Group will adopt IFRS 15: Revenue from Contracts with Customers on 1 April 2018 and anticipates applying the standard on a fully retrospective basis. For the accounting period beginning 1 April 2018 it is currently intended that the standard will be adopted and the prior year comparison will be restated subject to the application of one or more practical expedients available in the standard. During the year ended 31 March 2018, the Group has undertaken a review of all the services and products the Group provides and the main types of commercial arrangements used with each service and product. Both the UK and the US business will be impacted by IFRS 15 and the most significant impact of implementing the standard is for the hosted Customer Contact solutions in the UK, the hosted Secure Payment solutions in the UK and the onsite Secure Payment Audio Tokenisation solution in the US, which is in effect a hosted solution. Further details on the changes to the accounting policy and the impact of the adoption of IFRS 15 are on page 56.

### External audit

KPMG LLP has been the external auditor for the Group since year ended 31 March 2012. The appointment of KPMG LLP as external auditor, including the rotation of the audit partner, is kept under annual review. David Neale is the current audit partner and he has completed two years of his five-year term. An annual review of the effectiveness of the external audit is undertaken by the Committee.

The effectiveness of the audit process is underpinned by the appropriate audit planning and risk identification at the outset of the audit cycle. The auditor provides a detailed audit plan identifying its assessment of the risks and other key matters for review. For the year ended 31 March 2018, the primary risks identified were: contract revenue, revenue recognition, goodwill & intangible assets impairment and management override of controls. The Committee reviews and challenges the work undertaken by the auditor to test management's assumptions on these matters. An assessment of the effectiveness of the audit process in addressing these items is performed through the reporting received from the auditor at the half-year and year end. The Committee seeks feedback from management on the effectiveness of the audit process. No significant issues were raised with respect to the audit process for the period and the quality of the audit process was assessed to be good.

The Audit Committee meets the external auditor without the Executive Directors being present and procedures are in place, which allow access at any time of external auditors to the Audit Committee. The Chairman of the Committee reports the outcome of each meeting to the Board.

Based on the Committee's assessment, the Committee has provided the Board with its recommendation to the Shareholders on the re-appointment of KPMG LLP as external auditor for the year ending 31 March 2019. There are no contractual obligations restricting the Committee's choice of auditor. A resolution for re-appointment of the auditor will be proposed at the forthcoming Annual General Meeting and is included in the Notice of Meeting which accompanies this report.

#### Non-audit services

The Committee reviews the level of non-audit fees for services provided by the auditor in order to satisfy itself that auditor independence is safeguarded. There were no non-audit fees paid to KPMG in the year ended 31 March 2018.

In determining the most appropriate provider of non-audit services, the committee will consider the knowledge and expertise of the potential providers and the proposed costs. Non-audit services will only be undertaken by the auditor where it is deemed to be the preferred provider and the provision of services poses no threat to its independence.

Details of the remuneration paid to the auditor for the statutory audit are set out in note 7.

#### Risk management and internal control

The Board is responsible for establishing and maintaining the Group's system of internal control, and for regularly reviewing its effectiveness. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks are disclosed on pages 12 to 13 together with how they are being managed or mitigated. Procedures have been designed to meet the particular needs of the Group and its risks, safeguarding shareholder's investments and the Company's assets. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key features of the Group's internal control systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparation of monthly management accounts, project governance and information security.

There are ongoing processes for identifying, evaluating and managing the Company's significant risks and related internal controls that are integrated into the Company's operations. Such processes are reported to and reviewed by the Board at each meeting. These processes have identified the risks most important to the Company (business, operational, financial, security and compliance), determined the financial implications, and assessed the adequacy and effectiveness of their control. The reporting and review process provide routine assurance to the Board as to the adequacy and effectiveness of the internal controls.

#### Internal Audit

The Audit Committee annually reviews the requirement for an internal audit function. The Committee has decided that none is necessary at present. Instead, other monitoring processes have been applied to provide assurance to the Board that the system of internal control is functioning satisfactorily.

**Guy Millward**  
**CHAIRMAN AUDIT COMMITTEE**  
 13 June 2018



## Remuneration Committee Report

### Dear Shareholder,

I am delighted to have taken on the role of Remuneration Committee Chairman during the year. On behalf of the Remuneration Committee I am pleased to present our remuneration report for the financial year ended 31 March 2018, which has been approved by the Board.

This report is divided into two sections:

- Firstly, the annual statement setting out the work of the Remuneration Committee in 2018 and priorities for 2019; and
- The Annual Report on remuneration which sets out the remuneration paid to Directors in the year ended 31 March 2018 as well as details of how the Committee intends to implement our remuneration policy for the financial year ending 31 March 2019.

The membership and responsibilities of the Remuneration Committee are set out on page 38 of this report. Amongst its objectives, the Committee strives to ensure the Executive Directors' remuneration is aligned with the interests of Shareholders. The Remuneration Committee believes that Shareholders' interests are best served by linking a significant proportion of total potential remuneration to long-term performance.

Short and long-term incentives are structured to reward Executives for enhancing shareholder value. The value received by Executive Directors under the current long-term share incentive arrangements depends on the degree to which the associated performance conditions are satisfied at the end of the five-year performance period. This ensures that substantial rewards will be received only if substantial value has been created for Shareholders.

In respect of the year under review the Remuneration Committee's activities were as follows:

- The Committee sought approval from Shareholders at the 2017 AGM for a new long-term Performance Share Plan ("PSP") for Executive Directors and Senior Management following a detailed Shareholder consultation in 2017. The PSP was approved by 84.83% of Shareholders voting at the 2017 AGM.

- The Committee made PSP awards to Executive Directors on 23 November 2017, as set out in the formal report below, in line with the approved PSP rules.
- The Committee approved an increase in the Chief Executive Officer's and Chief Financial Officer's salaries with effect from 1 April 2018 of 2% and 3% respectively, reflecting pay increases within the Group's workforce and current market conditions.
- The Base fees of the Chairman and Non-Executive Directors have also been increased by 2% from 1 June 2018. In addition, a Committee Chair fee of £5,000 has been introduced for the Chair of the Remuneration Committee and Audit Committee, with effect from 1 June 2018.
- No bonus payments were made for the Executive Directors and Senior Management for the financial year ended 31 March 2018. Bonus payments were accrued at an average of 3% of salary for staff members.
- The Committee approved the structure of the 2019 Annual Bonus Plan to reward Executive Directors for delivering against challenging targets for the year ending 31 March 2019. The structure is a combination of financial targets and personal objectives.

During the current financial year ending 31 March 2019, the Committee intends to review the Group's remuneration policy, and the results of this review will be included in the Remuneration Committee Report in the Annual Report next year.

The Annual Remuneration Report in respect of last year, set out below, will be put to the Company's Shareholders for an advisory vote at the AGM to be held on Wednesday 19 September 2018. I encourage all Shareholders to vote in favour of this resolution and I look forward to the opportunity to meet with Shareholders at the 2018 AGM.

**David Coghlan**  
**CHAIRMAN REMUNERATION COMMITTEE**  
 13 June 2018

## Annual Report on Remuneration

The following section provides details of how Eckoh's remuneration policy was implemented during the financial year ended 31 March 2018. The following pages contain information that is required to be audited in compliance with the Directors' Remuneration requirements of the Companies Act 2006. All narrative and quantitative tables are unaudited unless otherwise stated.

### Remuneration Committee membership in 2017/18

The Remuneration Committee is responsible for developing policy on remuneration for the Executive Directors. The committee members are all independent Directors. Peter Simmonds was the Chair of the Remuneration Committee for the period from 1 April 2017 to his resignation from the Board on 14 December 2017. David Coghlan was appointed Chair of the Remuneration Committee on 17 January 2018. Guy Millward and Christopher Humphrey are also members. Christopher Humphrey joined the Committee on 21 June 2017.

The Remuneration Committee is formally constituted with written terms of reference which set out the full remit of the Committee. The Remuneration Committee met twice during the year. The details of meeting attendance are set out on page 30.

During the year, the Committee sought internal support from the Chief Executive Officer and Chief Financial Officer, who attended Committee meetings by invitation from the Chairman, to advise on specific questions raised by the Committee. The Chief Executive Officer and the Chief Financial Officer were not present for any discussions that related directly to their own remuneration.

In undertaking its responsibilities, the Committee seeks independent external advice as necessary. To this end, for the year under review the Committee has received advice from FIT Remuneration Consultants LLP.

### Summary of Shareholder voting at the 2017 AGM

The following table shows the results of the Shareholder advisory vote on the introduction of the long-term Performance Share Plan (PSP) for Executive Directors and Senior Management:

	Total number of votes	% of votes cast
For (including discretionary)	90,611,885	84.83%
Against	16,209,077	15.17%
<b>Total votes cast (excluding withheld votes)</b>	<b>106,820,962</b>	
Total votes withheld	11,596	
<b>Total votes cast (including withheld votes)</b>	<b>106,832,558</b>	

*...with very limited competition to our offering, this represents a huge opportunity for Eckoh in the coming years.*

### Directors' single figure of total remuneration (audited)

The following table sets out the single figure of total remuneration for Directors for the financial year ended 31 March 2018 and 2017:

	Base salary/fees		Benefits <sup>1</sup>		Pension		Annual bonus		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Executive Directors</b>										
Chrissie Herbert	160	-	11	-	16	-	-	-	187	-
Adam Moloney	33	180	2	12	3	12	-	-	38	204
Nik Philpot	283	269	15	15	15	35	-	-	313	319
<b>Non-Executive Directors</b>										
Clive Ansell	-	17	-	-	-	-	-	-	-	17
Chris Batterham	24	50	-	-	-	-	-	-	24	50
David Coghlan	10	-	-	-	-	-	-	-	10	-
Christopher Humphrey	47	-	-	-	-	-	-	-	47	-
Guy Millward	30	15	-	-	-	-	-	-	30	15
Peter Simmonds	21	21	-	-	-	-	-	-	21	21
<b>Total</b>	<b>608</b>	<b>552</b>	<b>28</b>	<b>27</b>	<b>34</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>670</b>	<b>626</b>

- Benefits includes car allowance, healthcare cover & death in service.
- Pensions have been separated out from benefits and the 2017 analysis restated. Nik Philpot and Chrissie Herbert receive pension contributions of 10% of base salary. In 2017 there was an overpayment into Nik Philpot's pensions, which was recovered during the financial year ended 31 March 2018.
- The Executive Directors did not receive any bonus payment in respect of the financial year ended 31 March 2018, or 31 March 2017.

## Incentive outcomes for the year ended 31 March 2018

### Annual bonus in respect of 2017/18 performance

The annual bonus for the Executive Directors and Senior Management for the year ended 31 March 2018 was based on the achievement of Adjusted Operating Profit. The level of Adjusted Operating Profit achieved, would have allowed for a small bonus to be paid to the Executive Directors, however, they proposed to the Remuneration Committee that no bonus be paid to either the Executive Directors or Senior Management and instead a bonus was accrued to pay the staff a bonus.

## Scheme interests awarded in the year ended 31 March 2018

### Performance Share Plan ("PSP") (audited)

The table below provides details of the Initial Awards made under the PSP on 23 November 2017 to Nik Philpot and Chrissie Herbert. Performance for these awards is measured over approximately five years from the 2017 AGM and will end 30 days after the announcement of the 2022 Full Year Financial Results.

Executive Director	Face value (% of salary)	Number of shares awarded	Face value <sup>1</sup> £	Potential award for minimum performance	Performance measures
Nik Philpot	140%	3,750,000	1,921,875	25% of face value	<ul style="list-style-type: none"> <li>25% vesting for compound growth in TSR of 10% pa</li> <li>100% vesting for compound growth in TSR of 25% pa</li> <li>Straight line vesting for intermediate performance between threshold and maximum performance</li> </ul>
Chrissie Herbert	112%	2,250,000	1,153,125		

- Face value has been calculated using the Company's share price at the end of the date of the award of £0.5125.

No further awards will be made to any recipients of the Initial Awards until 2022 (when the Initial Awards are expected to vest).

In the ten-year period from the 2017 AGM, the Company may not issue, under the PSP and any other employees' Share plan adopted by the Company, interests in shares comprising in aggregate more than 10% of the issued Ordinary Share Capital of the Company.

Except for the Initial Awards, awards will normally vest on the later of the expiry of the third anniversary of the date of grant of the award and the date that the Committee determines the extent to which the applicable performance criteria have been satisfied, and provided in normal circumstances that the participant is still a Director or employee of the Company's Group.

#### Payments to past Directors (audited)

There were no payments in the financial year ended 31 March 2017 to past Directors of the Company. In the financial year ended 31 March 2018, payments made to Adam Moloney, up to the date he ceased to be a Director are set out below:

- Salary totalling £32,000 for the period to his departure.
- Pension contribution totalling £3,076 for the period to his departure date.
- Benefits (including car allowance, healthcare and income protection) totalling £1,925 for the period to his departure.

#### Chairman and Non-Executive Director fees

The Chairman and Non-Executive Directors were paid the following fees in the financial year ending 31 March 2018

Role	2018 Annual fee
Chairman	£50,000
Non-Executive Director	£30,000
Chairman of a Committee	Nil

Fees for the Chairman, Non-Executive Directors and Committee Chairmen have been reviewed with the support of FIT Remuneration Consultants LLP, who provided market data. As a result of the review the fees for the Chairman and Non-Executive Directors base salaries will increase by 2% from 1 June 2018. In addition, a Committee Chairman fee for the Audit Committee and Remuneration Committee of £5,000 per annum will be introduced, effective 1 June 2018.

#### Directors' shareholdings

The shareholdings of the Directors and their connected persons in the Ordinary Shares of the Company against their respective shareholding requirement as at 31 March 2018:

	31 March 2018 Ordinary Shares of 0.25 pence each	1 April 2017 Ordinary Shares of 0.25 pence each
Nik Philpot <sup>1</sup>	6,926,285	5,854,873
Chrissie Herbert	20,000	-
Christopher Humphrey	400,000	-

1. Nik Philpot's spouse is the beneficial owner of 80,000 shares that are included above.

#### Directors' interests in shares in Eckoh's long-term incentive plans and all-employee plans Directors' share options (audited)

The Directors' interests in share options are shown in the following table:

	Note	At 1 April 2017 (number)	Granted in year (number)	Forfeited in year (number)	Exercised in year (number)	At 31 March 2018	Exercise price (pence)	Earliest date for exercise	Latest date for exercise
Nik Philpot	1	2,157,991	-	-	2,157,991	-	44.00	n/a	n/a
	2	4,265,983	-	-	4,265,983	-	44.00	n/a	n/a
	3	-	3,750,000	-	-	3,750,000	0.00	15.07.22	22.11.27
Chrissie Herbert	4	-	500,000	-	-	500,000	47.50	21.06.20	21.06.27
	3	-	2,250,000	-	-	2,250,000	0.00	15.07.22	22.11.27

1. Granted under the 2012 Eckoh plc Long Term Incentive Plan ("2012 LTIP"). The number of shares that ultimately vested was subject to the satisfaction of share price targets. The share price targets were comfortably exceeded and all of the share have now been exercised.
2. Granted under the 2012 Eckoh plc Long Term Incentive Plan ("2012 LTIP"). The number of shares that ultimately vested was subject to the satisfaction of share price targets. The share price targets were comfortably exceeded and all of the share have now been exercised.
3. Granted under the 2017 Eckoh plc Performance Share Plan ("PSP"), as approved at the 2017 AGM.
4. Granted under the 2016 LTIP (see below).

#### Long-Term Incentive arrangements for Directors

In addition to the PSP described above, the Company operates an additional long-term share incentive scheme for directors and senior managers ("the 2016 LTIP"). The 2016 LTIP was implemented following prior discussions with major Shareholders of the Company. Under this scheme, the Company may issue a maximum of 2% of the share capital each year for the 3 years ending 31 March 2019 to the

senior managers of the business. All options granted under this scheme carry an exercise price equal to the market price at the date of grant and are subject to vesting based on achievement of performance criteria. Grants of options under this arrangement were made in March 2016 and March 2017 to a total of 34 senior management employees. The Chief Executive Officer was not awarded any share options in the years ended 31 March 2016 and 31 March 2017.

Share options of 500,000 were awarded under the 2016 LTIP to Chrissie Herbert, Chief Financial Officer following her appointment on 2 May 2017. These are disclosed in the above and below tables. Total grants under the 2016 LTIP have been as follows:

Date of issue	Number of senior management	Granted in year (number)	Exercise price (pence)	Earliest date for exercise	Latest date for exercise
23 March 2016	28	4,100,000	43.5	23.03.19	23.03.26
2 May 2016	1	500,000	43.5	02.05.19	02.05.26
13 October 2016	2	500,000	38.875	13.10.19	13.10.26
31 March 2017	21	4,000,000	39.5	31.03.20	31.03.27
21 June 2017	1	500,000	47.5	21.06.20	21.06.27

The Company does not intend to grant any further awards under the 2016 LTIP.



**Share Incentive Plan (audited)**

The Group operates a Share Incentive Plan (SIP) in the UK. The scheme and plan are open to all UK employees, including the Executive Directors. As at 31 March 2018, Chrissie Herbert participates in the UK scheme and the details are shown below:

	Number of Partnership Shares purchased at 31 March 2017	Number of Matching Shares purchased at 31 March 2017	Dividend Shares <sup>1</sup> acquired at 31 March 2017	Total Shares at 31 March 2017	Number of Partnership Shares <sup>2</sup> purchased during the year	Matching Shares <sup>3</sup> awarded during the year	Dividend Shares acquired during the year	Dates of release of Matching Shares <sup>4</sup>	Total Shares at 31 March 2018
<b>Chrissie Herbert</b>	-	-	-	-	1,930	3,861	-	Nov 20	5,791

1. Dividend Shares are Ordinary Shares of the Company purchased with the value of dividends paid in respect of all other shares held in the plan.
2. Partnership Shares are Ordinary Shares of the Company purchased, every six months by the Company with the monthly contributions made by the employee, during the period (at prices from £0.3975 to £0.46625).
3. Matching Shares are Ordinary Shares of the Company awarded conditionally in line with the purchase of the matching shares every six months, during the period.
4. The dates used are based on the earliest allocation of the Matching Shares.

**Executive Directors' service contracts**

Nik Philpot has a service contract that is terminable on twelve months' notice by either party while Chrissie Herbert has a service contract that is terminable on nine months' notice by either party.

**Chairman and Non-Executive Directors**

The Chairman and Non-Executive Directors do not have service contracts but serve under letters of appointment terminable by six months' notice on either side.

**External advisors**

The Committee received independent advice from FIT Remuneration Consultants LLP as the Committees appointed remuneration advisor during the financial year ended 31 March 2018. During the year the level of fees paid to remuneration advisors totalled £32k, (2017: £nil) and this fee covered advice on the long-term Performance Share Plan proposed at the 2017 AGM and the review of the Non-Executive Directors base salary and Committee Chair Fee. The Committee is satisfied that the advice it received from FIT during the year was objective and independent.

**David Coghlan**  
**CHAIRMAN REMUNERATION COMMITTEE**  
13 June 2018

**Directors' Report**



The Directors present the Directors' report, together with the audited accounts for the year ended 31 March 2018.

Changes to the Board during the year and up to the date of this report were as follows:

Name	Effective Date	Position
<b>Chris Batterham</b>	Resigned on 20 September 2017	Non-Executive Chairman
<b>David Coghlan</b>	Appointed on 1 December 2017	Non-Executive Director
<b>Chrissie Herbert</b>	Appointed on 2 May 2017	Chief Financial Officer
<b>Christopher Humphrey</b>	Appointed on 21 June 2017	Non-Executive Director
<b>Christopher Humphrey</b>	Appointed on 20 September 2017	Non-Executive Chairman
<b>Peter Simmonds</b>	Resigned on 14 December 2017	Non-Executive Director

Details of the Directors, who will be standing for reappointment at the forthcoming Annual General Meeting to be held on 19 September 2018 are detailed on page 32. The remuneration of the Directors including their respective shareholdings in the Company is set out in the Remuneration Report on pages 37 to 42.

**Directors' and Officers' liability insurance and indemnification of Directors**

The Company maintains Directors' and Officers liability insurance which gives appropriate cover for any legal action brought against its Directors.

**Share capital**

The Company has only Ordinary Shares of 0.25 pence nominal value in issue along with 326,022 of shares held in treasury. Note 19 to the consolidated financial statements summarises the rights of the Ordinary Shares as well as the number issued during the year ended 31 March 2018.

The subsidiary undertakings are listed in note 14.

**Strategic Report**

The statements and reviews on pages 3 to 15 comprises the Strategic Report which contains certain information, outlined below, that is incorporated into the Directors' Report by reference:

- An indication of the Group's likely future business developments;
- An indication of the Group's research and development activities; and
- Information on the Group's policies for the employment of disabled persons and employee involvement; and
- The Corporate Responsibility statement.

**Results for the period**

The consolidated income statement, statement of financial position and cash flow statement for the year ended 31 March 2018 are set out on pages 52 to 55. An analysis of risk is set out on pages 12 to 13 and of risk management on pages 64 to 65. The statement of financial position and cash flow statement of the holding Company for the year ended 31 March 2018 are set out on page 80. Since 1 April 2018, there have been no material events likely to impact the future development of the Company.

**Directors**

The Directors who held office at 31 March 2018 and up to the date of this report are set out on page 28 along with their biographies and photographs.



### Substantial shareholdings

As at 31 March 2018, the Company had been advised under the Disclosure Guidance and Transparency Rules, or had ascertained from its own analysis, that the following held more than 3% of the issued capital:

Name of holder	No. of Ordinary Shares/ voting rights	% of issued capital/ voting rights
Hargreave Hale	48,440,874	19.21%
Kestral Partners	36,237,864	14.73%
Herald Investment Management	17,814,890	7.06%
Cavendish Asset Management	10,838,000	4.30%
Majedie Asset Management	8,760,898	3.47%
Hargreaves Lansdown Asset Management	7,760,381	3.08%
River & Mercantile Asset Management	7,601,865	3.01%

The Company's issued share capital as at 31 March 2018 is set out in note 19.

### Committees of the Board

The Board has established Audit, Nominations and Remuneration Committees. Details of these Committees, including membership and their activities during the year, are contained in the Corporate Governance section of the Annual Report and in the Remuneration Report.

### Corporate responsibility

The Group's report on corporate responsibility is set out on pages 24 to 27.

### Corporate governance

The Group's report on corporate governance is on pages 28 to 42 and forms part of this Directors' Report.

### Companies Act 2006 disclosures

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- The Company's capital structure and voting rights are summarised in note 19 and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- The Company holds 326,022 Ordinary Shares in treasury;
- There exist no securities carrying special rights with regard to the control of the Company;

- Details of the substantial Shareholders and their shareholdings in the Company are listed above;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

### Articles of Association

The Company's Articles of Association set out the rights of Shareholders including voting rights, distribution rights, attendance at general meetings, powers of directors, proceedings of directors as well as borrowing limits and other governance controls. Unless expressly specified to the contrary in the articles of association of the Company, the Company's articles of association may be amended by a special resolution of the Company's Shareholders. A copy of the Articles of Association can be requested from the Company Secretary.

### Conflicts of interest

During the year no Director held any beneficial interest in any contract significant to the Company's business, other than a contract of employment. The Company has procedures set out in the Articles of Association for managing conflicts of interest. Should a Director become aware that they or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board as soon as reasonably practicable. Related party transactions that took place during the year can be found in note 23.

### Political donations

The Group made no political donations during the year (2017: Enil).

### Financial instruments

The financial risk management objectives and policies of the Group and the exposure of the Group to foreign currency risk, interest rate risk, and liquidity risk are outlined in note 3 to the consolidated financial statements.

### Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements. There are no material uncertainties that would prevent the Directors from being unable to make this statement. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

### Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Annual General Meeting (AGM)

The 2018 AGM will be held at 11:00 on 19 September 2018.

The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions and encourages Shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

### Dividends

The Directors recommend the payment of a final dividend of 0.55p (2017: 0.48p) per Ordinary Share amounting to £1.4m (2017: £1.2 million) to be paid on 26 October 2018. This recommendation will be put to the Shareholders at the Annual General Meeting.

### Auditor

KPMG LLP have expressed their willingness to continue as the Company's Auditor. As outlined in the Audit Committee report on page 35, resolutions proposing their appointment and to authorise their remuneration will be proposed at the 2018 AGM.

### Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements.

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including *FRS 101 Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

**Chrissie Herbert**  
COMPANY SECRETARY  
13 June 2018

“ **The Group has adequate resources to continue in operational existence for the foreseeable future.** ”

# Independent auditor's report



## to the members of Eckoh plc

### 1. Our opinion is unmodified

We have audited the financial statements of Eckoh plc ("the Company") for the year ended 31 March 2018 which comprise the Group Consolidated Statement of Profit and Loss and Other Comprehensive Income, Group Consolidated Statement of Financial Position, Group Consolidated Statement of Changes in Equity, Group Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1 of the Group accounts and note i of the Parent Company accounts.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
<b>Materiality:</b>	£115k (2017: £110k)
group financial statements as a whole	4.7% (2017: 4.7%) of normalised profit before tax
<b>Coverage</b>	93% (2017: 100%) of group profit before tax
Risks of material misstatement vs 2017	
<b>Recurring risks</b>	
Contract revenue recognition	◀▶
Goodwill impairment	▲
Recoverability of Parent Company's investment in Subsidiaries	◀▶

### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

The risk	Our response
<b>Contract revenue recognition</b> <i>Refer to page 35 (Audit Committee Report), page 59 (accounting policy) and page 67 (financial disclosures).</i>	<b>Subjective estimate:</b> The contractual arrangements that underpin the measurement and recognition of revenue by the Group can be complex, with significant estimation of future financial performance in fulfilment of the contract required. Key sources of estimation uncertainty include the assessment of the stage of completion by reference to estimated costs to complete a contract.
<b>Goodwill and intangible asset impairment</b> (£7.3 million; 2017: £4.6 million) <i>Refer to page 35 (Audit Committee Report), page 59 (accounting policy) and page 71 (financial disclosures).</i>	<b>Forecast based estimate:</b> The risk is that the goodwill and acquired intangible assets in cash generating units is not recoverable and should be impaired. Factors that could give rise to an impairment include performance behind forecast which would impact the performance of separate cash generating units.  Due to the inherent uncertainty involved in forecasting future cash flows, determining growth rates and calculating discount rates, which are the basis of the assessment of recoverability, this is one of the key judgemental areas for our audit.

Our response	
Our procedures included:	<ul style="list-style-type: none"> <li>— <b>Our sector expertise:</b> Assessing whether the revenue recognition methodology applied was consistent with accounting standards;</li> <li>— <b>Our sector expertise:</b> Challenged the group's costs to complete through discussions with key management personnel across the business and inspection of relevant correspondence with customers, including a sample of relevant project stage sign-offs.</li> <li>— <b>Tests of detail:</b> For a sample of contracts, inspecting the detailed contractual terms to identify the service obligations to determine the appropriateness of revenue recognition;</li> <li>— <b>Tests of detail:</b> For a sample of contracts, inspecting customer sign off on acceptance of the deliverables to determine the appropriateness of completion of the contract; and</li> <li>— <b>Assessing transparency:</b> Assessing the adequacy of the Group's disclosure about estimation uncertainty regarding contract revenue.</li> </ul>
Our procedures included:	<ul style="list-style-type: none"> <li>— <b>Benchmarking assumptions:</b> Comparing management's data used in the calculation of discount rates against external sources. We compared the projected growth rates to externally derived data and assessed the appropriateness of the discount rate;</li> <li>— <b>Sensitivity analysis:</b> Performing breakeven analysis on the assumptions noted above; and</li> <li>— <b>Assessing transparency:</b> Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.</li> </ul>





2. Key audit matters: our assessment of risks of material misstatement (continued)

The risk	Our response
<p><b>Recoverability of Parent Company's investment in subsidiaries</b> (£19.4 million; 2017: £19.4 million)</p> <p><i>Refer to page 82 (accounting policy) and page 84 (financial disclosures).</i></p>	<p><b>Medium risk, high value:</b> The carrying amount of the Parent Company's investments in subsidiaries represents 58.2% (2017: 66.5%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Tests of detail:</b> Comparing the carrying amount of material investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit making;</li> <li>— <b>Assessing subsidiary audits:</b> Assessing the work performed where subsidiary audits are performed and considering the results of that work on those subsidiaries' profits and net assets. Where audits have not been performed, we performed analytical procedures on the balances within those subsidiaries; and</li> <li>— <b>Test of details:</b> For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based upon a discounted cash flow model, see "goodwill impairment" risk for procedures performed.</li> </ul>

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £115k (2017: £110k), determined with reference to a benchmark of Group profit before tax, normalised to exclude this year's one-off, non-recurring gain from the release of contingent consideration accrual as disclosed in note 28, of £1.0m (2017: nil), non-recurring expense from legal fees and settlement costs of £0.6m (2017: nil) as disclosed in note 8 and other non-recurring expense of £0.2m (2017: nil), of which it represents approximately 4.9% (2017: 4.7%).

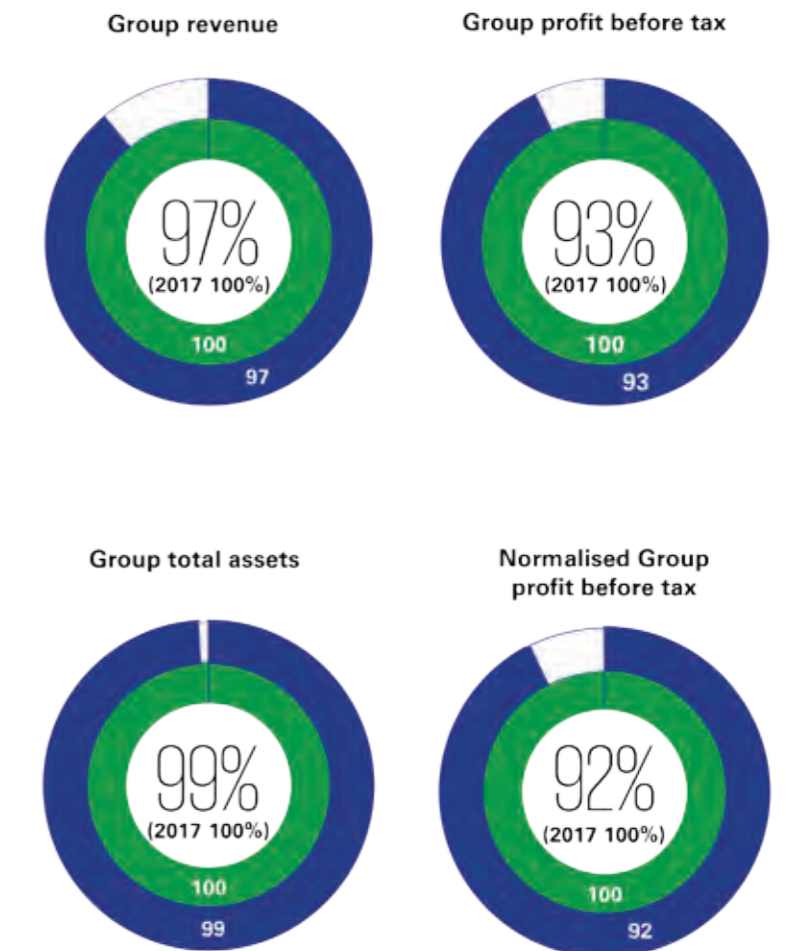
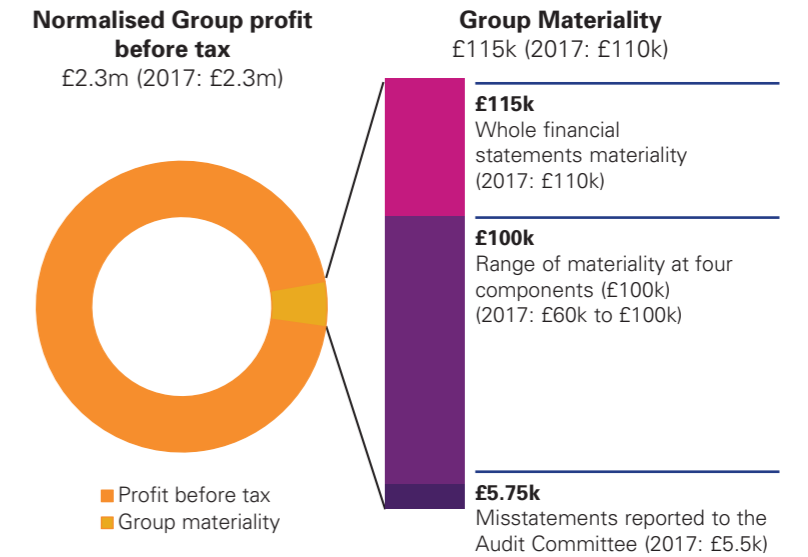
Materiality for the Parent Company financial statements as a whole was set at £100k (2017: £100k), based on component materiality. This is lower than the materiality we would otherwise have determined with reference to a benchmark of Parent Company total assets, and represents 0.4% (2017: 0.3%) of this benchmark.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5.75k (2017: £5.5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2017: five) reporting components, we subjected three (2017: four) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 3% (2017: nil) of total Group revenue, 7% (2017: nil) of Group profit before tax and 1% (2017: nil) of total Group assets is represented by one (2017: nil) component. For this component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, all of which were £100k (2017: £60k to £100k), having regard to the mix of size and risk profile of the Group across the components. The work on all of the three components (2017: all of the four components), including the audit of the Parent Company was performed by the Group team.



#### 4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

##### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

We have nothing to report in these respects.

#### 7. Respective responsibilities

##### Directors' responsibilities

As explained more fully in their statement set out on page 45, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

##### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### 8. The purpose of our audit work and to whom we owe our responsibilities

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.

**David Neale**  
**(Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

Altius House, One North Fourth Street  
Milton Keynes, MK9 1NE

13 June 2018

# Financial Statements

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## Consolidated statement of Profit and Loss and Other Comprehensive Income

for the year ended 31 March 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
<b>Continuing operations</b>					
<b>Revenue</b>	4		<b>30,005</b>		29,078
Cost of sales			<b>(7,120)</b>		(8,751)
<b>Gross profit</b>	4		<b>22,885</b>		20,327
Administrative expenses before expenses relating to share options schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets			<b>(17,624)</b>	(16,013)	
Profit from operating activities before expenses relating to share option schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets			<b>5,261</b>	4,314	
Amortisation of acquired intangible assets	12		<b>(2,329)</b>	(2,186)	
Transactions relating to acquisitions	27		-	(319)	
Legal fees and settlement costs	8		<b>(595)</b>	-	
Expenses relating to share option schemes	21		<b>(793)</b>	(24)	
Total administrative expenses	4		<b>(21,341)</b>	(18,542)	
<b>Profit from operating activities</b>	5		<b>1,544</b>		1,785
Finance charges	9		<b>(118)</b>	(205)	
Change in contingent consideration	28		<b>975</b>	-	
Interest receivable	9		<b>34</b>	43	
<b>Profit before taxation</b>			<b>2,435</b>		1,623
Taxation credit / (charge)	10		<b>225</b>	(184)	
<b>Profit for the year</b>			<b>2,660</b>		1,439
	Notes		<b>2018 £'000</b>		2017 £'000 (restated – see note 1)
<b>Other comprehensive income</b>					
<i>Items that will be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences - foreign operations			<b>(907)</b>		845
<b>Other comprehensive income for the year, net of income tax</b>			<b>(907)</b>		845
<b>Total comprehensive income for the year attributable to the equity holders of the parent company</b>			<b>1,753</b>		2,284
<b>Profit per share</b>	Notes		<b>pence</b>		pence
Basic earnings per 0.25p share	11		<b>1.08</b>		0.60
Diluted earnings per 0.25p share	11		<b>1.03</b>		0.56

## Consolidated statement of financial position

as at 31 March 2018

	Notes	2018 £'000	2017 £'000 (restated – see note 1)	2016 £'000 (restated – see note 1)
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	12	<b>7,959</b>	10,900	9,547
Tangible assets	13	<b>4,703</b>	5,023	5,376
Deferred tax asset	10	<b>3,533</b>	3,578	4,774
		<b>16,195</b>	19,501	19,697
<b>Current assets</b>				
Inventories	15	<b>724</b>	713	748
Trade and other receivables	16	<b>9,835</b>	11,557	9,127
Cash and cash equivalents	17	<b>8,164</b>	6,083	6,617
		<b>18,723</b>	18,353	16,492
<b>Total assets</b>		<b>34,918</b>	37,854	36,189
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	18	<b>(7,885)</b>	(9,155)	(10,676)
Other interest-bearing loans and borrowings	3	<b>(1,300)</b>	(1,300)	(1,000)
		<b>(9,185)</b>	(10,455)	(11,676)
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings	3	<b>(3,250)</b>	(4,550)	(3,750)
Contingent consideration	28	-	(975)	-
Deferred tax liability	10	<b>(674)</b>	(1,383)	(1,684)
		<b>(3,924)</b>	(6,908)	(5,434)
<b>Net assets</b>		<b>21,809</b>	20,491	19,079
<b>Shareholders' equity</b>				
Share capital	19	<b>631</b>	611	600
ESOP reserve		<b>(238)</b>	(83)	(17)
Capital redemption reserve		<b>198</b>	198	198
Share premium		<b>2,640</b>	2,660	2,612
Merger reserve		<b>2,697</b>	2,697	2,353
Currency reserve		<b>329</b>	1,236	391
Retained earnings		<b>15,552</b>	13,172	12,942
<b>Total Shareholders' equity</b>		<b>21,809</b>	20,491	19,079

The financial statements were approved by the Board of Directors on 13 June 2018 and signed on its behalf by:

Chrissie Herbert  
CHIEF FINANCIAL OFFICER

Company Registration Number 3435822

## Consolidated statement of changes in equity

for the year ended 31 March 2018

	Share capital	ESOP reserve	Capital redemption reserve	Share premium	Merger reserve	Retained earnings	Currency reserve	Total shareholders' equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2016 (as previously reported)	600	(17)	198	2,612	2,353	12,942	157	18,845
Restatement (note 1)	-	-	-	-	-	-	234	234
Balance at 1 April 2016 (restated)	<b>600</b>	<b>(17)</b>	<b>198</b>	<b>2,612</b>	<b>2,353</b>	<b>12,942</b>	<b>391</b>	<b>19,079</b>
<b>Total comprehensive income</b>								
Profit	-	-	-	-	-	1,439	-	1,439
Retranslation (restated)	-	-	-	-	-	-	845	845
<b>Total comprehensive income (restated)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,439</b>	<b>845</b>	<b>2,284</b>
<b>Transactions with owners of the Company</b>								
<b>Contributions and distributions</b>								
Dividends paid in the year	-	-	-	-	-	(1,084)	-	(1,084)
Shares issued on acquisition of Klick2Contact EU Ltd	2	-	-	-	344	-	-	346
Shares transacted through Employee Benefit Trust	-	16	-	5	-	(14)	-	7
Purchase of own shares	-	(82)	-	-	-	-	-	(82)
Shares issued under the share option schemes	9	-	-	43	-	-	-	52
Share-based payment charge	-	-	-	-	-	132	-	132
Deferred tax on share options	-	-	-	-	-	(243)	-	(243)
<b>Total contributions and distributions</b>	<b>11</b>	<b>(66)</b>	<b>-</b>	<b>48</b>	<b>344</b>	<b>(1,209)</b>	<b>-</b>	<b>(872)</b>
<b>Total transactions with owners of the Company</b>	<b>11</b>	<b>(66)</b>	<b>-</b>	<b>48</b>	<b>344</b>	<b>(1,209)</b>	<b>-</b>	<b>(872)</b>
<b>Balance at 31 March 2017 (restated)</b>	<b>611</b>	<b>(83)</b>	<b>198</b>	<b>2,660</b>	<b>2,697</b>	<b>13,172</b>	<b>1,236</b>	<b>20,491</b>
	Share capital	ESOP reserve	Capital redemption reserve	Share premium	Merger reserve	Retained earnings	Currency reserve	Total shareholders' equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2017 (restated)	<b>611</b>	<b>(83)</b>	<b>198</b>	<b>2,660</b>	<b>2,697</b>	<b>13,172</b>	<b>1,236</b>	<b>20,491</b>
<b>Total comprehensive income</b>								
Profit	-	-	-	-	-	2,660	-	2,660
Retranslation	-	-	-	-	-	-	(907)	(907)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,660</b>	<b>(907)</b>	<b>1,753</b>
<b>Transactions with owners of the Company</b>								
<b>Contributions and distributions</b>								
Dividends paid in the year	-	-	-	-	-	(1,209)	-	(1,209)
Shares transacted through Employee Benefit Trust	-	1	-	-	-	(49)	-	(48)
Purchase of own shares	-	(156)	-	-	-	-	-	(156)
Shares issued under the share option schemes	20	-	-	(20)	-	-	-	-
Share-based payment charge	-	-	-	-	-	554	-	554
Deferred tax on share options	-	-	-	-	-	424	-	424
<b>Total contributions and distributions</b>	<b>20</b>	<b>(155)</b>	<b>-</b>	<b>(20)</b>	<b>-</b>	<b>(280)</b>	<b>-</b>	<b>(435)</b>
<b>Total transactions with owners of the Company</b>	<b>20</b>	<b>(155)</b>	<b>-</b>	<b>(20)</b>	<b>-</b>	<b>(280)</b>	<b>-</b>	<b>(435)</b>
<b>Balance at 31 March 2018</b>	<b>631</b>	<b>(238)</b>	<b>198</b>	<b>2,640</b>	<b>2,697</b>	<b>15,552</b>	<b>329</b>	<b>21,809</b>

## Consolidated statement of cash flows

for the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Cash generated in operations	25	<b>5,844</b>	2,475
Taxation		<b>(3)</b>	(263)
<b>Net cash generated in operating activities</b>		<b>5,841</b>	2,212
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	<b>(646)</b>	(598)
Purchases of intangible fixed assets	12	<b>(323)</b>	(200)
Proceeds from sale of intangible fixed assets	12	<b>6</b>	18
Interest paid	9	<b>(118)</b>	(142)
Interest received	9	<b>34</b>	43
Acquisition of subsidiary, net of cash acquired	28	<b>-</b>	(1,860)
<b>Net cash utilised in investing activities</b>		<b>(1,047)</b>	(2,739)
<b>Cash flows from financing activities</b>			
Dividends paid		<b>(1,209)</b>	(1,084)
Proceeds from new loan		<b>-</b>	6,500
Repayment of borrowings		<b>(1,300)</b>	(5,400)
Purchase of own shares		<b>(156)</b>	(82)
Issue of shares		<b>-</b>	52
Shares acquired / sold by Employee Benefit Trust		<b>(48)</b>	7
<b>Net cash generated in financing activities</b>		<b>(2,713)</b>	(7)
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>2,081</b>	(534)
Cash and cash equivalents at the start of the period	17	<b>6,083</b>	6,617
<b>Cash and cash equivalents at the end of the period</b>	<b>17</b>	<b>8,164</b>	6,083

The notes on pages 56 to 86 form an integral part of these financial statements.

# Notes to the Financial Statements for the year ended 31 March 2018

## 1. Basis of Preparation

The Consolidated Financial Statements of Eckoh plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("endorsed IFRS"). These Financial Statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at 31 March 2018 as endorsed by the EU.

The following adopted IFRSs have been issued but have not been applied by the Group in these Financial Statements. Their adoption is not expected to have a material effect on the Financial Statements unless otherwise indicated:

Effective for the year ending 31 March 2019

- IFRS 15 Revenue from Contracts with Customers (IFRS 15)
- IFRS 9 Financial Instruments – Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition
- IFRS 2 (amended) Classification and measurement of share-based payment transactions
- 2014-2016 Cycle of annual improvements to IFRS

Effective for the year ending 31 March 2020

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial instruments
- Amendments to IAS 28 Investments in Associates and Joint Ventures

Effective for the year ending 31 March 2022

- IFRS 17 Insurance contracts

The Directors review newly issued standards and interpretations in order to assess the impact (if any) on the Financial Statements of the Group in future periods.

### *IFRS 15 Revenue from Contracts with Customers – effective for the year ending 31 March 2019*

The review of IFRS 15 is ongoing and the Directors are cognisant of industry practice, which is constantly evolving, that could impact the Group in its implementation; however, based on the current position the Directors have undertaken an assessment of the impact of the standard on the Group based on the standard's latest authoritative guidance. The Group will adopt IFRS 15 on 1 April 2018 and anticipates applying the standard on a fully retrospective basis. For the accounting period beginning on 1 April 2018 the standard will be adopted and the prior year comparison will be restated subject to the application of one or more of the practical expedients available in the standard.

IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. The Group has undertaken a review of all the services and products the Company provides and the main types of commercial arrangements used with each service and product. Both the UK and the US business will be impacted by IFRS 15 and the most significant impact of implementing the standard is for the hosted Customer Contact solutions and Secure Payment solutions, which are in effect a hosted solution. The most significant effects identified are as follows:

- Revenue for implementation fees for our hosted Secure Payments solution and our hosted Customer Contact services; and revenue for hardware and implementation fees for our hosted or onsite Secure Payments Audio Tokenisation solution, will no longer be recognised at the point of delivery of hardware or implementation fees recognised as the project is being delivered. Under IFRS 15 these revenues will be deferred to later periods. Only once the solution has been delivered to the client will revenue begin to be recognised and then it will be spread evenly over the term of the contract. The costs directly attributable to the delivery of the hardware and the implementation fees will be capitalised as 'costs to fulfil a contract' and released over the contract term, thereby also deferring costs to later periods. The impact of this standard means 15% - 35% of total contract value, which would have been recognised in the 3 – 12 month period after contract signing, will be delayed for a minimum of 3 – 12 months before any revenue is recognised. Once revenue starts to be recognised it will be spread on average over 3 years, the average length of contracts. The impact is to delay revenue recognition of these specific fees by up to 4 years in total.

- Where contract modifications take place, these are currently recognised as revenue at the point the modification is delivered to the client. Under IFRS 15 consideration will need to be given as to whether these are for services that are distinct from the original contract. Where they are treated as a continuation of the original contract, there may be a cumulative adjustment to revenue at the point the modification was delivered to the client with a portion of the modification fees being recognised over the remainder of the contract term.

The underlying business model and the market opportunity for Eckoh is not impacted by IFRS 15 nor is cash generation of the business. In addition, in the US business, the revenue for the Support, Coral and Other Product are not impacted by IFRS 15, nor is the revenue impacted from the secure payments CallGuard On-Site, the Group's entry level product for PCI compliance.

The Company estimates, the impact of adoption of IFRS 15 for the year ended 31 March 2018, would be to defer £3.7m of revenue and costs of £1.3m into future periods. The net impact is to reduce retained earnings by £2.4m, increase deferred liabilities by £3.7m and increase deferred assets by £1.3m. The development of these estimates has been performed outside of the Group's underlying financial systems. As a result, on full transition the actual impact may differ from the amounts disclosed once individual transactions have been processed. The Directors will continue to monitor industry practice and experience of implementation and update its assessment of the impact for the Group as appropriate.

Cashflow from operating activities is not impacted nor is the Company's ability to pay dividends.

The company uses a number of Key Performance Indicators KPIs to monitor the performance of the business. These will be impacted over the initial 3-4 years following adoption of IFRS 15, as follows:

- Recurring revenue will initially increase by approx. 10 percentage points and over the subsequent 3-4 years following adoption of IFRS 15 will gradually fall back to somewhat higher than current levels due to the anticipated growth of the US secure payments;
- Operating profit margin, which for the year ended 31 March 2018 was 18%, will initially decrease by approx. 12% to 6% and over the subsequent 3-4 years following adoption of IFRS 15 will increase to at least current levels due to the anticipated growth of US secure payments;
- US Secure Pay total contract value will not be impacted; and
- Secure Pay and hosted services Order Book or unrecognised revenue will increase by the amount of revenue deferred into future periods.

### *IFRS 9 – Financial Instruments – effective for the year ending 31 March 2019*

The Group is planning to adopt IFRS 9 on 1 April 2019 and anticipates applying the standard prospectively with no retrospective adjustments. The Group does not anticipate any material change on adoption of the standard.

### *IFRS 16 Leases – effective for the year ending 31 March 2020*

The Group is planning to adopt IFRS 16 Leases on 1 April 2019. The Standard will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. An initial assessment has not indicated a significant impact to the Group.

These Financial Statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union ("EU") and effective at 1 April 2018.

These Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss.

**Going Concern** Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company and the Group are a going concern. As part of its normal business practice the Group prepares annual and longer term plans and, in reviewing this information, the Company's Directors are satisfied that the Group and the Company have reasonable resources to enable them to continue in business for the foreseeable future. For this reason the Company and the Group continue to adopt the going concern basis in preparing the financial statements.

The Consolidated Financial Statements are presented in Pounds Sterling, which is the company's functional currency. All financial information presented has been rounded to the nearest one thousand, except where stated.

### **PRIOR YEAR RESTATEMENT**

The Company has reviewed the way the goodwill and intangible assets and the related deferred tax liability for the acquisition of PSS Inc in the year ended 31 March 2016 has been accounted for. At the point of acquisition on 17 November 2015, the Goodwill and intangible assets of both the US and UK business of PSS were translated into sterling and held in the Company. On further analysis the proportion of the Goodwill and intangible assets relating to the US business of PSS Inc (87% of the business) should have been held in US dollars in accordance with IAS 21.

As a result, the value of goodwill and intangible assets has increased since 17 November 2015 due to the fluctuation in the sterling dollar exchange rate. As at 31 March 2016, the value of Goodwill increased by £133k and the value of Intangible assets increased by £152k. In the year ended 31 March 2017, the cumulative value of the Goodwill increased by £482k and the value of the other Intangible assets increased by £427k. The deferred tax liability for the year ended 31 March 2016 was also revalued and resulted in a credit to the deferred tax liability of £51k for the year ended 31 March 2016. In the year ended 31 March 2017, the cumulative value of the deferred tax liability increased by £145k.

As a result, the amortisation charged in the years ending 31 March 2016 and 2017 was understated by £10k and £92k respectively and the deferred tax liability release to the tax charge was understated by £3k and £31k. The net difference to profit after tax for the year ended 31 March 2016 and 31 March 2017 was £7k and £61k respectively. The effect of these changes on amortisation and release of the deferred tax credit to the Income Statement for each of the two years ending 31 March 2016 and 2017 is immaterial and the cumulative effect has been included in the income statement for the year ended 31 March 2018. The cumulative amortisation related to prior periods recognised in the year ended 31 March 2018 is £102k (2016 £10k and 2017 £92k) and the cumulative release of the deferred tax is £34k (2016 £3k and 2017 £31k).

	2016 (as previously reported) £'000	Impact of prior period adjustment £'000	2016 (restated) £'000
Intangible assets – Goodwill	2,613	133	2,746
Intangible assets – other	6,649	152	6,801
<b>Intangible assets</b>	<b>9,262</b>	<b>285</b>	<b>9,547</b>
Deferred tax liability	(1,633)	(51)	(1,684)
Other assets/ liabilities not impacted	11,216	-	11,216
<b>Net assets</b>	<b>18,845</b>	<b>234</b>	<b>19,079</b>
<b>Shareholders' equity</b>			
Currency reserve	157	234	391
Retained earnings	12,942	-	12,942
Other equity entries not impacted	5,746	-	5,746
<b>Total Shareholders' equity</b>	<b>18,845</b>	<b>234</b>	<b>19,079</b>

	2017 (as previously reported) £'000	Impact of prior period adjustment £'000	2017 (restated) £'000
Intangible assets - Goodwill	4,638	482	5,120
Intangible assets - other	5,353	427	5,780
<b>Intangible assets</b>	<b>9,991</b>	<b>909</b>	<b>10,900</b>
Deferred tax liability	(1,238)	(145)	(1,383)
Other assets/ liabilities not impacted	10,974	-	10,974
<b>Net assets</b>	<b>19,727</b>	<b>764</b>	<b>20,491</b>
<b>Shareholders' equity</b>			
Currency reserve	472	764	1,236
Retained earnings	13,172	-	13,172
Other equity entries not impacted	6,083	-	6,083
<b>Total Shareholders' equity</b>	<b>19,727</b>	<b>764</b>	<b>20,491</b>

	2017 £'000
<b>Other Comprehensive Income</b>	<b>£'000</b>
Balance at 1 April (as previously reported)	315
Foreign currency translation differences - foreign operations	
- Goodwill (note 12)	349
- Intangible assets (note 12)	275
- Deferred tax liability (note 10)	(94)
<b>Balance at 31 March (restated)</b>	<b>845</b>

As previously noted, the impact on the consolidated profit and loss of these adjustments have been processed in the current year due to their immateriality. As such, there was no impact on the consolidated statement of Profit and Loss and consequently the earnings per share previously reported. There was also no impact on the consolidated statement of cash flows.

The principal accounting policies, which have been consistently applied, are described below.

## 2. Summary of Principal Accounting Policies

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The preparation of Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and reasonable expectations of future events. Actual results may differ from those estimates.

The accounting policies cover areas that are considered by the Directors to require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The policies, and the related notes to the financial statements, are found below:

#### Revenue Recognition

The Group recognises revenue on certain contracts during the period of performance prior to an invoice being raised, where work has been completed and where there is a high degree of certainty of the contract being completed, the invoice raised and cash received. In relation to Customer Contact and Secure Payment Solutions implementation fee revenue, this involves estimating a percentage of completion based on the direct labour costs incurred to date as a proportion of the total estimated costs required to complete a project.

Whilst these assessments are made on a recognised and consistent basis, variation in the total estimated costs derived from these assessments and estimates used by the Directors could have a significant impact on the amount and timing of revenue recognised on a project. The non-recurring element of the UK business is 14% and the US business is 43%. With the adoption of IFRS 15: Revenue from Contracts with Customers from 1 April 2018, this policy will be superseded.

#### Goodwill and Intangible assets impairment

The Group has goodwill and intangible assets as a result of the acquisitions for the Veritape, PSS and Klick2Contact businesses over the last few years. On an annual basis the Group undertakes an impairment review of goodwill and intangible assets for each cash generating unit (CGU) using cashflow projections.

#### Share-based payments

The fair value of share-based payments is estimated using the methods detailed in note 21 and using certain assumptions. Both the Black Scholes and Monte Carlo valuation models have been used in determining the fair value of share-based payments, with management selecting the most appropriate model for each scheme, based on the varying performance-related or market-related conditions within those specific schemes. The key assumptions around volatility, expected life and risk free rate of return are based, respectively, on historic volatility over a similar previous period, management's estimate of the average expected period to exercise, and the yield on zero-coupon UK government bonds of a term consistent with assumed option life. Were volatility to be reduced by 10%, the approximate impact on the share-based payment charge in the year is a reduction of £87k. An increase in risk free rate of 1% would result in an increase in the charge of £15k.

#### Deferred taxation (note 10)

Deferred tax liabilities are recognised for all taxable temporary differences but, where there exist deductible temporary differences, judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. At 31 March 2018, the Group recognised deferred tax assets of £3.6 million, including £2.1 million in respect of tax losses and tax credits. Deferred tax assets amounting to £0.5m were not recognised in respect of trading losses and £5.3m in respect of capital losses of which £3.8m are restricted. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from estimates.

### BASIS OF CONSOLIDATION

#### (a) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

#### (b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

#### (c) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### (d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### INTANGIBLE ASSETS

##### (a) Goodwill

Goodwill represents the excess of the fair value of the consideration paid over the fair value attributable to the net assets acquired and is capitalised on the Group balance sheet.

Goodwill is not amortised and is reviewed for impairment at least annually. Any impairment is recognised in the period in which it is identified.

##### (b) Acquired intangible assets

Intangible assets acquired by the Group are capitalised at the fair value of the consideration paid and amortised over their expected useful economic lives. The expected useful economic life of intangible assets is assessed for each acquisition as it arises. The acquired intangibles currently held are amortised over the following period:

Customer relationships - 5 years  
Intellectual property - 5 years  
Trade name - 3 years

##### (c) Research and development

Research costs are charged to the income statement in the year in which they are incurred. Development expenses include expenses incurred by the Group to set up or enhance services to clients. Development costs that mainly relate to staff salaries are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs that do not meet those criteria are expensed as incurred. Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset, which is generally assumed to be three years.

Amortisation is charged to administrative expenses in the income statement.

The carrying value of intangible assets is assessed at the end of each financial year for impairment. See the policy entitled impairment of non-financial assets below.

#### IMPAIRMENT OF NON-FINANCIAL ASSETS

An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and the value-in-use based on an internal discounted cash flow evaluation. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

#### TANGIBLE ASSETS

##### (a) Land and buildings

Land and buildings are stated at cost or fair value at acquisition, net of depreciation and any provisions for impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

##### (b) Property, plant and equipment

Property, plant and equipment is stated at cost or fair value at acquisition, net of depreciation and any provisions for impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising on the disposal of an asset is determined by comparing the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. Depreciation is calculated using the straight-line method to allocate the cost of each asset to its estimated residual value over its expected useful life, as follows:

Land - is not depreciated  
Buildings - 25 years  
Fixtures and equipment - between 3 and 5 years  
Leasehold improvements - over the term of the lease

Material residual values and useful lives are reviewed, and adjusted if appropriate, at least annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### FINANCIAL ASSETS

Financial assets include investments in companies other than Group companies, trade and other receivables (see separate policy) financial receivables held for investment purposes, treasury shares and other securities. A permanent impairment is provided as a direct reduction of the securities account.

The Group classifies its financial assets in the following categories: available for sale investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. The classification is determined by management at initial recognition.

##### (a) available-for-sale investments:

are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date and they are carried at fair value.

##### (b) loans and receivables:

are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. Trade and other receivables which principally represent amounts due from customers and other third parties, are carried at original invoice value less an estimate made for bad and doubtful debts. They are included within current assets, with the exception of those with maturities greater than one year, which are included within non-current assets. Loans and receivables are included within trade and other receivables in the balance sheet.

Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

An assessment for impairment is undertaken annually. Management consider the financial information in respect of entities from which receivables are due.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

## INVENTORIES

Inventories are valued at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises design costs, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

## TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at amortised cost less provision for impairment. A provision for the impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Other receivables are stated at amortised cost less provision for impairment.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term investments, with maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## SHORT-TERM INVESTMENTS

Short-term investments comprise funds which have been invested in short-term deposit accounts with maturities of less than twelve months and amounts held in escrow. Credit and liquidity risk management is described in note 3.

## EQUITY

Equity comprises the following:

**Share capital** represents the nominal value of Ordinary Shares.

**ESOP reserve** represents the amount paid for Ordinary Shares held by the Employee Share Ownership Plan.

**Capital redemption reserve** represents the maintenance of capital following the share buy back and tender offer.

**Share premium reserve** represents consideration for Ordinary Shares in excess of the nominal value.

**Merger reserve** represents consideration in excess of the nominal value of shares issued on certain acquisitions.

**Currency reserve** represents exchange differences arising on consolidation of Group companies with a functional currency different to the presentation currency.

**Retained earnings** represent retained profits less losses and distributions.

## DIVIDENDS

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the Shareholders. Interim dividends are recognised when paid.

## FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the FCTR, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

## LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## PROVISIONS

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used reflects current market assessments of the time value of money and the risks specific to the liability.

## EMPLOYEE BENEFITS

### (a) Pensions

The Group operates a Group personal pension scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions payable are charged in the income statement in the year in which they are incurred.

### (b) Bonus schemes

The Group recognises a liability and an expense for bonuses payable to: i) employees based on a formula derived from management assessment of individual performance; and ii) senior management and executive directors based on achievement of a series of financial and non-financial targets. A provision is recognised where there is a past practice that has created a constructive obligation.

### (c) Share-based payments

From time to time on a discretionary basis, the Board of Directors award high-performing employees bonuses in the form of share options. The options are subject to a three year vesting period and their fair value is recognised as an employee benefits expense with a corresponding increase in equity over the vesting period. The fair value of share options granted is recognised within staff costs with a corresponding increase in equity. The proceeds received are credited to share capital and share premium when the options are exercised.

The fair value of share options was measured using the more appropriate of the QCA-IRS option valuer using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold of vesting.

IFRS 2 has been applied to all options granted after 7 November 2002 that have not vested on or before 1 April 2006. A deferred tax adjustment is also made relating to the intrinsic value of the share options at the balance sheet date (see separate policy).

As a result of the grant of share options since 6 April 1999 the Company will be obliged to pay employer's National Insurance contributions on the difference between the market value of the underlying shares and their exercise price when the options are exercised. A provision is made for this liability using the value of the Company's shares at the balance sheet date and is spread over the vesting period of the share options.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase to equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

### (d) Employee Share Ownership Plan

The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. The assets of the ESOP comprise shares in the Company and cash. The assets, liabilities, income and costs of the ESOP have been included in the financial statements in accordance with SIC 12, 'Consolidation - Special purpose entities' and IAS 32, 'Financial Instruments: Disclosure and Presentation'. The shares in the Company are included at cost to the ESOP and deducted from Shareholders' funds. When calculating earnings per share these shares are treated as if they were cancelled.



## REVENUE RECOGNITION

Revenue represents the fair value of the sale of goods and services, net of Value-Added Tax, and after eliminating sales within the Group. Group revenue has four elements, being transactional, build fee, support and maintenance, and sale of hardware. Revenue is recognised as follows:

- The majority of revenue in the UK business is derived and recognised on a transaction basis, when the Group has determined that users have accessed its services via a telephone carrier network and/or the Group's telecommunication call processing equipment connected to that network. This is measured by the minute when a user accesses our services and is billed to our customer on this basis. In the US business, where the Secure Payments business is contracted on an opex style basis the monthly license fee charged to the client is recognised in the month it relates to.
- Implementation fee revenue in the Group is recognised on delivery and acceptance of a customer service application. In the event that work on a project which results in an implementation fee has commenced but not completed within an accounting period, revenue is recognised in line with the percentage that the project is complete at the end of the accounting period. The percentage of completion is calculated by taking the costs incurred on the project at the end of an accounting period and expressing that as a percentage of the total estimated costs that are anticipated to be incurred in order to complete the project.
- The revenue derived from the sale of hardware and the purchase of software licenses is recognised when the risks and rewards of ownership are passed to the customer. The Group assesses whether it is acting as agent or principal depending on the terms of the contract. Where the Group acts as agent the amount of revenue recognised is limited to the commission fee receivable for that service. Coral revenue is recognised as principal due to Eckoh holding ultimate responsibility for establishing price and bearing credit risk.
- In the event that multiple revenue sources are included in the same contract, each component part is separately fair valued and individual component revenues are recognised when the revenue recognition criteria for that component has been met. Neither build fee or support and maintenance revenue are considered to be a significant proportion of the overall revenue, and are not separately disclosed.

## ALTERNATIVE PERFORMANCE MEASURES (APMS)

This report provides APMS which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMS provide readers with additional information on our business to understand trading performance and facilitate the reader to compare performance against prior years more easily. In particular, the Group presents on the face of the income statement those material items of expenditure which, because of their nature and/or

expected infrequency of the events giving rise to them, merit separate presentation to allow Shareholders to understand the elements of financial performance in the period. The measures used are adjusted operating profit, adjusted earnings before interest, tax, depreciation and expenses and adjusted administrative expenses.

## FINANCE FEES

Finance fees are credited or charged to the income statement and reflects movements in contingent consideration in the year.

## TAXATION

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

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred tax is not provided if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

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

## FINANCIAL LIABILITIES

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are stated at amortised cost.

A financial liability is derecognised only when the obligation is discharged, is cancelled or it expires.

## 3. Financial risk management

The operations of the Group expose it to a variety of financial risks: liquidity risk, interest rate risk and foreign currency risk. Policies for managing these risks are set by the Board following recommendations from the Chief Financial Officer. All financial risks are managed centrally. The policy for each of the above risks is described in more detail opposite.

The Group's financial instruments comprise cash, short-term deposits, finance leases and various items, such as receivables and payables that arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. Similarly the Group did not undertake any financial hedging arrangements during the year under review. The year-end position reflects these policies and there have been no changes in policies or risks since the year-end.

## LIQUIDITY RISK

Through detailed cash flow forecasting and capital expenditure planning, the Group monitors working capital and capital expenditure requirements and through the use of rolling short-term investments ensures that cash is available to meet obligations as they fall due. Cash at bank is pooled and invested in overnight money market accounts and deposits.

The contractual maturities of financial liabilities are set out in note 20.

## INTEREST RATE RISK

The Group principally finances its operations through Shareholders' equity and working capital. The Group took borrowings during the year applying variable interest rates, and now has exposure to interest rate fluctuations on the loan, its cash and short-term deposits.

The Group has adopted a sensitivity analysis that measures changes in the fair value of financial instruments and interest-bearing loans and any resultant impact on the income statement of an increase or decrease of 2% in market interest rates.

	2% decrease in interest rates £'000	2% increase in interest rates £'000
Impact on financial interest in the income statement: (loss)/gain	(29)	29

## FOREIGN CURRENCY RISK

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets, profits and losses into the presentation currency. This risk is managed by taking differences that arise on the retranslation of the net overseas investments to the currency reserve. Foreign currency risk on cash balances is monitored through cash flow forecasting and currency is held in foreign currency bank accounts only to the extent that it is required for working capital purposes. No sensitivity analysis is provided in respect of foreign currency risk as due to the Group's working capital management practices, the risk is considered to be moderate. The risk is further explained in the principal risks and uncertainties on pages 12 to 13.

## CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base with the joint objectives to maintain investor, creditor and market confidence and to sustain future development of the business. Capital comprises all components of equity (i.e. share capital, capital redemption reserve, share premium and retained earnings). The Board manages the capital structure and makes adjustments as required in the light of changes in economic conditions. The Board may return capital to Shareholders, issue new shares or sell assets in order to maintain capital.

Credit risk management is described in note 16.

## FINANCIAL ASSETS

	2018 £'000	2017 £'000
Current financial assets		
Trade receivables (note 16)	5,149	7,076
Other receivables (note 16)	86	245
Cash and cash equivalents (note 17)	8,164	6,083
<b>Total financial assets</b>	<b>13,399</b>	<b>13,404</b>

## FINANCIAL LIABILITIES

All financial liabilities held by the Group, except for contingent consideration, are measured at amortised cost and comprise trade payables of £2,958,000 (2017: £3,173,000) and other payables of £72,000 (2017: £49,000). See note 18 for further details.

## OTHER INTEREST-BEARING LOANS AND BORROWINGS

Information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost are disclosed below. For more information about the Group's exposure to interest rate and foreign currency risk, see above.

	2018 £'000	2017 £'000
Non-current financial liabilities		
Secured bank loans	3,250	4,550
Current financial liabilities		
Current portion of secured bank loans	1,300	1,300

## TERMS AND DEBT REPAYMENT SCHEDULE

	Currency	Nominal interest rate	Maturity date	Carrying amount 2018 £'000
Bank Loan	Sterling	1.25% plus LIBOR.	See note 20	4,550

The collateral to these loans is the land and buildings carrying value of £3m.

## 4. Segment analysis

The segmentation is based on analysing Eckoh UK including PSS UK, Eckoh US which includes PSS Inc, and K2C.

Information regarding the results of each operating segment is included below. Performance is measured based on segment profit or loss before taxation as included in the internal management reports provided to the Chief Executive Officer.

	Eckoh UK	Eckoh US	K2C	Total 2018	Total 2017
	£'000	£'000	£'000	£'000	£'000
<b>Current period segment analysis</b>					
<b>Segment Revenue</b>	<b>18,016</b>	<b>11,068</b>	<b>921</b>	<b>30,005</b>	<b>29,078</b>
Gross profit	15,319	6,784	782	22,885	20,327
Administrative expenses before expenses relating to share options schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets	(10,481)	(6,538)	(605)	(17,624)	(16,013)
Profit from operating activities before expenses relating to share options schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets	4,838	246	177	5,261	4,314
Other expenses <sup>1</sup>	(2,378)	(1,339)	-	(3,717)	(2,529)
<b>Operating profit</b>	<b>2,460</b>	<b>(1,093)</b>	<b>177</b>	<b>1,544</b>	<b>1,785</b>
Interest received	1,008	-	1	1,009	43
Finance charges	(94)	(24)	-	(118)	(205)
<b>Profit before taxation</b>	<b>3,374</b>	<b>(1,117)</b>	<b>178</b>	<b>2,435</b>	<b>1,623</b>
Taxation credit / (charge)	20	218	(13)	225	(184)
<b>Profit after taxation</b>	<b>3,394</b>	<b>(899)</b>	<b>165</b>	<b>2,660</b>	<b>1,439</b>
<b>Segment assets</b>					
Trade receivables	2,801	2,175	173	5,149	7,076
Deferred tax asset	3,262	240	31	3,533	3,578
<b>Segment liabilities</b>					
Trade and other payables	1,349	1,608	73	3,030	3,222
<b>Capital expenditure</b>					
Purchase of tangible assets	590	56	-	646	598
Purchase of intangible assets	318	5	-	323	200
<b>Depreciation and amortisation</b>					
Depreciation	643	262	9	914	1,058
Amortisation	1,890	764	-	2,654	2,619

1. Other expenses include expenses relating to share option schemes, acquisition costs, legal fees and settlement costs and, amortisation of acquired intangible assets.

In 2017/18, there was no one customer that individually accounted for more than 10% of the total revenue of the continuing operations of the company (2016/17: one customer). In 2016/17 revenue from the largest customer, who is a major US telecommunications company, totalled £3,354,000 which represented 11.5% of total revenue for the year.

The key segments reviewed at Board level are the UK, US and K2C operations.

	Eckoh UK £'000	Eckoh US £'000	K2C £'000	2018 £'000	2017 £'000
<b>Revenue by geography</b>					
UK	17,769	-	886	18,655	19,147
United States of America	137	10,800	3	10,940	9,302
Rest of the World	110	268	32	410	629
<b>Total Revenue</b>	<b>18,016</b>	<b>11,068</b>	<b>921</b>	<b>30,005</b>	<b>29,078</b>

	Eckoh UK £'000	Eckoh US £'000	K2C £'000	Total 2017 £'000
<b>Prior period segment analysis</b>				
<b>Segment revenue</b>	<b>18,703</b>	<b>9,707</b>	<b>668</b>	<b>29,078</b>
Gross profit	15,531	4,194	602	20,327
Administrative expenses before expenses relating to share options schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets	(11,293)	(4,310)	(410)	(16,013)
Profit from operating activities before expenses relating to share options schemes, acquisition costs, legal fees and settlement costs and amortisation of acquired intangible assets	4,238	(116)	192	4,314
Other expenses <sup>1</sup>	(2,450)	(79)	-	(2,529)
<b>Operating profit / (loss)</b>	<b>1,788</b>	<b>(195)</b>	<b>192</b>	<b>1,785</b>
Interest received	43	-	-	43
Finance charges	(168)	(37)	-	(205)
<b>Profit / (loss) before taxation</b>	<b>1,663</b>	<b>(232)</b>	<b>192</b>	<b>1,623</b>
Taxation	(140)	(19)	(25)	(184)
<b>Profit / (loss) after taxation</b>	<b>1,523</b>	<b>(251)</b>	<b>167</b>	<b>1,439</b>
<b>Segment assets</b>				
Trade receivables	4,391	2,469	216	7,076
Deferred tax asset	3,519	15	44	3,578
<b>Segment liabilities</b>				
Trade and other payables	1,904	1,267	51	3,222
<b>Capital expenditure</b>				
Purchase of tangible assets	529	56	13	598
Purchase of intangible assets	195	5	-	200
<b>Depreciation and amortisation</b>				
Depreciation	883	162	13	1,058
Amortisation	2,598	21	-	2,619

1. Other expenses include expenses relating to share option schemes, acquisition costs, legal fees and settlement costs and, amortisation of acquired intangible assets.

	Eckoh UK £'000	Eckoh US £'000	K2C £'000	2017 £'000
<b>Revenue by geography</b>				
UK	18,441	56	650	19,147
United States of America	8	9,294	-	9,302
Rest of the World	254	357	18	629
<b>Total Revenue</b>	<b>18,703</b>	<b>9,707</b>	<b>668</b>	<b>29,078</b>

## 5. Profit from operating activities

Current period segment analysis	2018 £'000	2017 £'000
<b>The Group's profit from operating activities is arrived at after charging:</b>		
Employee benefits expense (note 6)	11,324	9,742
Depreciation (note 13)	914	1,058
Amortisation (note 12)	2,654	2,619
Operating lease payments – property	467	582

## 6. Employee benefits expense

	2018 £'000	2017 £'000
Wages and salaries	10,301	8,887
Less: Internal development costs capitalised in the year	(254)	(120)
Amortisation of internal development costs	239	323
Social security costs	381	395
Pension costs	103	125
Share-based payments	554	132
	11,324	9,742

The Directors' report on page 43 provides further details on the Directors' emoluments. The average number of people (including Executive Directors) employed by the Group during the year was:

	2018 Number	2017 Number
Technical support	106	99
Customer services	28	31
Administration and management	80	66
	214	196

Excluded from the table above are 38 (2017: 30) full time equivalent casual call centre employees who cost £354,832 (2017: £323,297) in the year.

## 7. Auditor remuneration

During the year the Group obtained the following services from the Group's auditor at costs as detailed below:

	2018 £'000	2017 £'000
Fees payable for the audit of the parent company and consolidated accounts	16	15
Fees payable for other services:		
The audit of subsidiary undertakings comprising continuing operations	74	64
<b>Total fees payable to the Group's auditor</b>	<b>90</b>	<b>79</b>

## 8. Legal fees and settlement costs

	2018 £'000	2017 £'000
<b>Legal fees and settlement costs</b>	<b>595</b>	<b>-</b>
	595	-

As disclosed in the 2017 Annual Report and the Interim Statement in November 2017, in the financial year 2016/17, the Group received a legal claim from a client that had discontinued a project related to the closed professional services division in the acquired PSS Inc business.

The Group has vigorously defended the claim, however, in the year ended March 2018 we have chosen to settle the claim with the client to bring this matter to a close. The Group is not aware of any other contractual commitments from the closed professional services division.

## 9. Interest receivable and finance charges

	2018 £'000	2017 £'000
<b>Interest receivable</b>		
Bank interest receivable	34	43
	34	43

	2018 £'000	2017 £'000
<b>Finance Charges</b>		
Bank interest payable	(118)	(142)
Unwind of discount on contingent consideration	-	(63)
	(118)	(205)

## 10. Taxation

	2018 £'000	2017 £'000
<b>Tax recognised in profit and loss</b>		
Current tax expense		
Current year	1	-
Adjustments in respect of prior periods	1	(243)
	2	(243)
<i>Deferred tax credit</i>		
Origination and reversal of temporary differences	170	185
Prior year adjustment	(54)	44
Foreign exchange translation	7	-
Change in tax rates	(350)	198
	(227)	427
<b>Total tax (credit)/ charge</b>	<b>(225)</b>	<b>184</b>

A credit of £424,000 (2017: charge of £243,000) for deferred taxation in relation to share options was recognised directly in equity.

The tax charge for the year is different to the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

Continuing operations	2018 £'000	2017 £'000
Profit for the year	2,660	1,439
Total tax (credit) / charge	(225)	184
Profit excluding tax	2,435	1,623
Profit multiplied by rate of corporation tax in the UK of 19% (2017: 20%)	463	325
Additional foreign tax suffered	1	-
Effect of expenses not deductible for tax purposes	25	93
Adjustments in respect of prior periods (current and deferred)	(53)	(199)
Non-taxable income	(198)	-
Deferred tax not recognised	(23)	(24)
Effect of tax rate adjustment on closing recognised deferred tax balance	(90)	(11)
Deferred tax impact of US tax rate reduction	(350)	-
<b>Tax (credit)/ charge for the year</b>	<b>(225)</b>	<b>184</b>

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA reduced the statutory U.S. Corporate income tax rate from its previous maximum progressive rate of 35% to a flat 21% tax rate effective January 1, 2018.

As this rate was enacted at the balance sheet date, the deferred tax in relation to the US assets and liabilities has been recognised at the reduced rate. The company recorded a deferred tax credit of £295k in the period in respect of the rate reduction.

### Recognition of deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2018	2017	2018	2017 (Restated – note 1)	2018	2017 (Restated – note 1)
	£'000	£'000	£'000	£'000	£'000	£'000
Capital allowances differences	561	347	-	-	561	347
Short term timing differences	884	1,011	-	-	884	1,011
Tax losses	2,088	2,220	-	-	2,088	2,220
Property, plant and equipment	-	-	(113)	-	(113)	-
Intangible assets	-	-	(561)	(1,383)	(561)	(1,383)
<b>Tax losses carried forward</b>	<b>3,533</b>	<b>3,578</b>	<b>(674)</b>	<b>(1,383)</b>	<b>2,859</b>	<b>2,195</b>

### Movement in deferred tax balances during the year

	2018 £'000	2017 £'000
Balance at 1 April (as previously reported)	2,340	3,141
Restatement (note 1)	(145)	(145)
Balance at 1 April (restated)	2,195	2,996
Recognised in income statement	227	(428)
Recognised in equity	424	(243)
Recognised through business combinations	-	(127)
Recognised in OCI	12	-
Other	1	(3)
<b>Balance at 31 March (restated)</b>	<b>2,859</b>	<b>2,195</b>

### Unrecognised deferred tax assets

There are unprovided deferred taxation assets totalling £545,000 (2017: £564,000) in respect of trading losses and £5,325,000 (2017: £5,325,000) in respect of capital losses of which £3,811,000 (2017: £3,811,000) are restricted. The trading losses have not been recognised due to the uncertainty of the profits being available to utilise these.

## 11. Earnings per share

The basic and diluted earnings per share are calculated on the following profit and number of shares. Earnings for the calculation of earnings per share is the net profit attributable to equity holders of the parent.

	2018 £'000	2017 £'000
<b>Earnings for the purposes of basic and diluted earnings per share</b>	<b>2,660</b>	<b>1,439</b>
<b>Denominator</b>	<b>247,424</b>	<b>241,550</b>
Weighted average number of shares in issue in the period	247,424	241,550
Shares held by employee ownership plan	(805)	(323)
Shares held in Employee Benefit Trust	-	(2)
Number of shares used in calculating basic earnings per share	246,619	241,225
Dilutive effect of potential shares relating to the Klick2Contact contingent consideration	-	1,260
Dilutive effect of share options	12,384	14,021
<b>Number of shares used in calculating diluted earnings per share</b>	<b>259,003</b>	<b>256,506</b>

## 12. Intangible assets

Group	Goodwill	Internally developed computer software	Customer relationships	Intellectual property	Trade name	Total
<b>Cost</b>						
Balance at 1 April 2016 (as previously reported)	2,613	3,389	2,565	7,015	271	15,853
Restatement (note 1)	133	-	121	18	13	285
At 1 April 2016 (restated)	2,746	3,389	2,686	7,033	284	16,138
Acquired through business combination	2,025	372	691	-	74	3,162
Additions	-	200	-	-	-	200
Foreign exchange	349	8	219	33	23	632
Disposals	-	(18)	-	-	-	(18)
At 31 March 2017 (restated)	5,120	3,951	3,596	7,066	381	20,114
Additions	-	261	-	62	-	323
Reclass of assets	-	(95)	-	95	-	-
Foreign exchange	(288)	(7)	(241)	(36)	(26)	(598)
Disposals	-	(1,531)	-	(5)	-	(1,536)
<b>At 31 March 2018</b>	<b>4,832</b>	<b>2,579</b>	<b>3,355</b>	<b>7,182</b>	<b>355</b>	<b>18,303</b>
<b>Amortisation</b>						
At 1 April 2016	-	2,677	211	3,682	21	6,591
Charge for the year	-	476	608	1,471	64	2,619
Foreign exchange	-	4	-	-	-	4
At 31 March 2017	-	3,157	819	5,153	85	9,214
Charge for the year	-	387	802	1,365	100	2,654
Reclass of assets	-	(15)	-	15	-	-
Foreign exchange	-	6	-	-	-	6
Disposals	-	(1,530)	-	-	-	(1,530)
<b>At 31 March 2018</b>	<b>-</b>	<b>2,005</b>	<b>1,621</b>	<b>6,533</b>	<b>185</b>	<b>10,344</b>
<b>Carrying amount</b>						
At 31 March 2018	4,832	574	1,734	649	170	7,959
At 31 March 2017	5,120	794	2,777	1,913	296	10,900

During the financial year ended 31 March 2018, the intangible assets have been reviewed and assets that are no longer held in the business have been identified and disposed of. This resulted in a nil net book value for disposal.

Amortisation of acquired intangible assets included in the charge for the year in the above table was £2,329k (FY17: £2,186k), within the internally generated software is an intangible asset acquired when K2C was purchased.

On an annual basis the impairment review of goodwill is undertaken to determine a value in use calculation for each generating unit (CGU) using cashflow projections. Management have identified the CGUs as Eckoh UK, Eckoh US and K2C, which was acquired in the prior year.

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

	Goodwill 31 March 2018 £'000	Goodwill 31 March 2017 £'000	Market growth rate %	Discount rate %
Eckoh - UK	348	348	5%	13.9%
Eckoh - US	2,459	2,747	20%	13.9%
K2C	2,025	2,025	10%	15.8%
<b>Total</b>	<b>4,832</b>	<b>5,120</b>		

No impairment has been recorded in the current year for Eckoh UK, Eckoh US or K2C. The main assumptions which related to sales volume, selling prices and cost changes, are based on recent history and explanations of future changes in the market. The discount rate applied to the cash flow forecasts is based on a market participant's pre – tax weighted average cost of capital adjusted for the specific risks in the CGUs. Growth rate used to extrapolate beyond the plan year and terminal values are based upon minimum expected growth rates of the individual business.

Management have performed a profitability forecast for the next five years for each of the CGUs, which are based on the latest three year plan approved by the Board and modified as appropriate to reflect the latest conditions. Management are satisfied that the carrying value of Goodwill and Other Intangible Assets are supported.

Goodwill acquired through business combinations have been allocated to the following CGUs:

- Eckoh - UK
- Eckoh - US
- K2C

#### Sensitivity to the changes in assumptions

If forecast revenues fell by 40%, no impairment in the carrying values of Eckoh UK and Eckoh US would be required.

Within the K2C CGU there is a reasonable possibility that a change in a key assumption on which the value in use of the CGU has been generated would cause the unit's carrying amount to exceed the recoverable amount. The recoverable amount of the unit exceeds the carrying amount by £935k. An increase in discount rate from 15.8% to 18% would reduce headroom to £383k. A decrease in forecast cashflows by 5% would reduce headroom to £203k. If forecast revenues fell by up to 4.5%, no impairment in the carrying values of K2C would be required.

## 13. Tangible assets

	Leasehold provements £'000	Land and buildings £'000	Fixtures and equipment £'000	Total £'000
<b>Cost</b>				
At 1 April 2016	-	3,068	10,212	13,280
Acquired through business combination	-	-	22	22
Additions	32	-	566	598
Foreign exchange	-	-	137	137
Disposals	-	-	(100)	(100)
<b>At 31 March 2017</b>	<b>32</b>	<b>3,068</b>	<b>10,837</b>	<b>13,937</b>
Additions	-	-	646	646
Foreign exchange	(3)	-	(99)	(102)
Disposals	-	-	(4,664)	(4,664)
<b>At 31 March 2018</b>	<b>29</b>	<b>3,068</b>	<b>6,720</b>	<b>9,817</b>
<b>Depreciation</b>				
At 1 April 2016	-	53	7,851	7,904
Charge for the year	10	43	1,005	1,058
Foreign exchange	-	-	52	52
Disposals	-	-	(100)	(100)
<b>At 31 March 2017</b>	<b>10</b>	<b>96</b>	<b>8,808</b>	<b>8,914</b>
Charge for the year	9	42	863	914
Foreign exchange	(1)	-	(49)	(50)
Disposals	-	-	(4,664)	(4,664)
<b>At 31 March 2018</b>	<b>18</b>	<b>138</b>	<b>4,958</b>	<b>5,114</b>
<b>Carrying amount</b>				
<b>At 31 March 2018</b>	<b>11</b>	<b>2,930</b>	<b>1,762</b>	<b>4,703</b>
<b>At 31 March 2017</b>	<b>22</b>	<b>2,972</b>	<b>2,029</b>	<b>5,023</b>

During the financial year ended 31 March 2018, the tangible assets have been reviewed and assets that are no longer held in the business have been identified and disposed of. This resulted in a nil net book value for disposal.

## 14. Investment in subsidiary undertakings

The company has the following investments in subsidiaries, which are included in the Consolidated Financial Statements:

Subsidiary undertakings	Country of incorporation	Principal activities	Percentage of share capital held
Eckoh UK Limited	England and Wales (ii)	Speech Solutions	100%
Veritape Limited	England and Wales (ii)	Non trading	100%
Eckoh LLC	United States of America (iii)	Non trading	100%
Eckoh Inc	United States of America (iv)	Secure Payment Solutions	100% (i)
Eckoh France SAS	France (vii)	Non trading	100% (i)
Eckoh Enterprises Limited	England and Wales (ii)	Dormant	67% & 33% (i)
Eckoh Projects Limited	England and Wales (ii)	Non trading	100%
Avorta Limited	England and Wales (ii)	Dormant	100% (i)
Eckoh Technologies Limited	England and Wales (ii)	Dormant	100% (i)
Intelliplus Group Limited	England and Wales (ii)	Dormant	100%
Intelliplus Limited	England and Wales (iii)	Non Trading	100% (i)
Medius Networks Limited	England and Wales (ii)	Non Trading	100% (i)
Telford Projects Limited	England and Wales (ii)	Dormant	100%
Swwwoosh Limited	England and Wales (ii)	Dormant	100% (i)
365 Isle of Man Limited	Isle of Man (v)	Dormant	100% (i)
Product Support Solutions Inc	United States of America (vi)	Support Solutions	100%
Klick2Contact EU Ltd	England and Wales (ii)	Cloud-based Software Provider	100%

(i) Share capital held by a subsidiary undertaking.

(ii) The registered office is Telford House, Corner Hall, Hemel Hempstead, HP3 9HN.

(iii) The registered office is c/o National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, Delaware 19904.

(iv) The registered office is 9900 Nicholas Street, Suite 175, Omaha, NE 68114.

(v) The registered office is First Names House, Victoria Street, Douglas, Isle of Man, IM2 4DF.

(vi) The registered office is 7172 Regional Street. #431, Dublin, California 94568.

(vii) The registered office is Rue De La Vieille Poste Parc, Industriel et Technologique de la Pompignane, 34000 Montpellier.

All companies hold ordinary class shares and have March year-ends, with the exception of Veritape, which has a September year end. Information in relation to geographical operations is set out in note 4.

The subsidiary undertaking Klick2Contact EU Limited (registered number: 07553916) is exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act.

## 15. Inventories

The company has the following investments in subsidiaries, which are included in the Consolidated Financial Statements:

	2018 £'000	2017 £'000
Finished goods	718	711
Work in progress	6	2
	<b>724</b>	<b>713</b>

## 16. Trade and other receivables

Current	2018 £'000	2017 £'000
<b>Trade receivables</b>	<b>5,175</b>	<b>7,087</b>
<b>Less: provision for impairment of receivables</b>	<b>(26)</b>	<b>(11)</b>
Net trade receivables	5,149	7,076
Corporation tax debtor	19	289
Other receivables	86	245
Prepayments and accrued income	4,581	3,947
	<b>9,835</b>	<b>11,557</b>

The Directors consider that the carrying value of the trade and other receivables approximate to their fair value.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's trade and other receivables. Concentrations of credit risk with respect to trade receivables are limited due to working capital practices of the market sector and the Group; and the nature of the Group's customer base. The working capital practices of the market sector within which the Group operates are such that the majority of the trade receivables balance is due from the telephony carriers under a self-bill agreement. The reputable nature of the Group's current customer base limits exposure to credit risk.

## 17. Cash and cash equivalents

	2018 £'000	2017 £'000
Sterling	7,950	4,477
Euro	51	161
US dollars	163	1,445
	<b>8,164</b>	<b>6,083</b>

	2018 £'000	2017 £'000
Floating rate	7,950	4,477
Euro	51	161
US dollars	163	1,445
	<b>8,164</b>	<b>6,083</b>

Cash and cash equivalents comprise cash held by the Group. Surplus cash is placed in an interest bearing account. The average interest rate on the interest bearing account during the year was 0.22% (2017: 0.30%).

The Group's financial risk management is disclosed in note 3.

## 18. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	2,958	3,173
Other payables	72	49
Other taxation and social security	732	1,513
Accruals and deferred income	4,123	4,420
	<b>7,885</b>	<b>9,155</b>

All of the amounts above are payable within one year and trade payables that are more than three months old at the year-end represent £39,829 (2017: £203,780).

The Group's exposure to liquidity risk is disclosed in note 3.

## 19. Share Capital

### Allotted called up and fully paid

Share type	Number of shares	Nominal value £'000
Ordinary Shares of 0.25p each		
At 1 April 2017	244,299,546	611
Shares issued under the share option schemes	8,213,974	20
At 31 March 2018	<b>252,513,520</b>	<b>631</b>

All Ordinary Shares in issue are fully paid. The holders of the Ordinary Shares are entitled to receive dividends, if declared, and are entitled to vote at general meetings of the Company. Potential Ordinary Shares are disclosed in note 21.

## 20. Non-current liabilities

	Loans £'000	Deferred tax £'000	Total £'000
At 1 April 2017 (as previously reported)	4,550	1,238	5,788
Restated (note 1)	-	145	145
At 1 April 2017 (restated)	4,550	1,383	5,933
Movement during the year (note 10)	-	(709)	(709)
Repaid during the year	(1,300)	-	(1,300)
<b>At 31 March 2018</b>	<b>3,250</b>	<b>674</b>	<b>3,924</b>

The deferred tax movement of £709k in the year can be explained through an increase in balance from property, plant and equipment (£113k), a decrease from intangible assets (£460k), a reduction in the US tax rate (£350k) and foreign exchange movements for the year ended 31 March 2018 of £12k.

### Loans and borrowings

In July 2016 the Group secured a bank loan with a carrying amount of £6.5m to assist with the acquisition of Klick2Contact EU Ltd and to repay the existing bank loan that had a balance of £3.75m at 31 March 2016 due over 1 year.

The loan of £6.5m is repayable over a period of 5 years. Twenty quarterly repayments of £325,000 commenced in July 2016. A fixed interest is payable at a rate of 1.25 % per annum plus a variable base rate currently 0.25%.

## 21. Share-based payments

**The Eckoh plc Share Option Scheme** ('the Scheme') was introduced in November 1999 and re-approved by the Board in the year ended 31 March 2018. Under the Scheme the Board can grant options over shares in the Company to Group employees. The grant price of share options is the middle market quotation price as derived from the Daily Official List of the London Stock Exchange on the date of the grant. The contractual life of an option is ten years. Options granted under the Scheme become exercisable subject to the share price exceeding RPI plus 15% after the third anniversary of the grant date. Exercise of an option is subject to continued employment, with certain exceptions, as specified in the Scheme rules.

**The Eckoh plc Enterprise Management Incentive Scheme** ('the EMI Scheme') was introduced in February 2007. Under the Scheme the Board can grant options over shares in the Company to Group employees. The grant price of share options is the middle market quotation price as derived from the Daily Official List of the London Stock Exchange on the date of the grant. The contractual life of an option is ten years. Options granted under the EMI Scheme become exercisable subject to the percentage growth in earnings per share in the three years following the year of grant being at least 5% (compounded) per annum. Exercise of an option is subject to continued employment, subject to certain exceptions as specified in the EMI Scheme rules.

**The Eckoh plc Share Incentive Plan** ("the Plan") was introduced in September 2016. The Scheme provides employees with the opportunity to acquire shares in Eckoh plc. Shares are purchased on behalf of the employee from amounts sacrificed from their salary on a monthly basis and matched on a two for one basis by the Company. Any shares acquired will be held in a trust in accordance with the terms of the Plan. In order to maximise the tax benefits available, the employee must remain employed with the company and hold the shares within the Trust for a minimum of five years.

**The Eckoh plc Performance Share Plan** ("the PSP") was introduced in November 2017, following approval by Shareholders at the 2018 AGM. Initial Awards, at Nominal cost were granted to each of the Executive Directors. Each of the PSP awards is subject to a Total Shareholder Return performance condition, measured over a 5 year performance period. Further details are included in the Remuneration Committee report on page 37.

The fair value of share options granted under the Scheme, the EMI Scheme and the PSP were measured using the QCA-IRS option valuer based on the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The fair value per option granted and the assumptions used in the calculation are as follows:

	8 June 2012	05 Dec 2014	25 March 2015	23 March 2016	31 March 2017	21 June 2017	23 Nov 2017
Share price (pence)	11.125	46.25	37.50	43.50	39.50	47.50	51.25
Exercise price (pence)	11.25	46.25	46.5	43.50	39.50	47.50	-
Number of employees	1	1	1	25	21	1	2
Shares under option	75,000	150,000	500,000	3,600,000	4,000,000	500,000	6,000,000
Vesting period (years)	3	3	3	3	3	3	4.33
Expected volatility	40%	20%	22%	32%	35%	35%	35%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3	4.33
Risk free rate	2.75%	1.76%	1.76%	0.78%	0.56%	0.56%	0.56%
Expected dividends expressed as a dividend yield	-	-	-	0.89%	1.14%	1.22%	1.14%
Fair value per option (pence)	3.18	6.89	6.08	9.19	8.84	10.6	48.8

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with assumed option life. The fair value of share options granted under the Plan was measured using the valuation model. The assumptions used in the calculation are as follows:

	2 September 2016	5 December 2016	7 June 2017
Share price (pence)	35.0	47.5	46.6
Exercise price (pence)	0.00	0.00	0.00
Number of employees	49	44	49
Shares under option	209,706	178,445	164,204
Vesting period (years)	3.50	3.50	3.50
Annual attrition	0%	15%	12%
Discount rate	1.5%	1.5%	1.5%
Years to vesting (years)	2.92	2.92	2.92
Discounted charge	70,278	45,952	41,506

A reconciliation of option movements over the year to 31 March 2018 is shown below:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 April	21,279,160	18.43	20,694,299	0.85
Granted	6,842,649	3.88	5,209,706	38.23
Exercised	(8,306,974)	0.11	(3,724,845)	1.54
Lapsed	-	-	-	-
Forfeited	(100,000)	43.50	(900,000)	45.17
<b>Outstanding at 31 March</b>	<b>19,714,835</b>	<b>20.91</b>	<b>21,279,160</b>	<b>18.43</b>
<b>Exercisable at 31 March</b>	<b>4,062,480</b>	<b>7.68</b>	<b>11,719,454</b>	<b>0.55</b>

Range of exercise prices (pence)	Weighted average exercise price (pence)	Number of shares (000s)	2018 Weighted average remaining life		Weighted average exercise price (pence)	Number of shares (000s)	2017 Weighted average remaining life	
			Expected	Contractual			Expected	Contractual
0 - 0.5	0.16	8,325	1.83	8.17	-	11,166	0.1	5.8
4.5 - 6.5	5.13	265	-	1.92	5.13	335	-	2.9
10.5 - 12.5	11.05	375	-	3.84	11.04	428	-	4.9
37.5 - 39.5	39.24	5,000	1.75	8.75	39.24	5,000	2.8	9.8
42.5 - 44.5	43.50	4,100	0.99	7.99	43.50	4,200	2.0	9.0
44.5 - 46.5	46.25	150	-	6.68	46.25	150	0.7	7.7
46.5 - 48.5	47.50	500	2.22	9.22	-	-	-	-

The total charge for the year relating to employee share-based payment plans was £554,000 (2017: £132,000) all of which related to equity-settled share based payment transactions.

## 22. Pension commitments

The Group operates a group personal pension scheme and, in addition, the subsidiary company Eckoh UK Limited operates a defined contribution pension scheme. The assets of the pension schemes are held separately from those of the Group in independently administered funds. The pension charge represents contributions payable by the Group to the funds. There were no outstanding or proposed contributions at the balance sheet date.

There are 2 Directors accruing benefits under the pension scheme.

The aggregate Directors' emoluments are shown in the table opposite.

	2018 £'000	2017 £'000
<b>Directors</b>		
Aggregate emoluments	670	626
	<b>670</b>	<b>626</b>

## 23. Related party transactions

Eckoh plc is the parent and ultimate controlling company of the Eckoh Group, the Consolidated Financial Statements of which include the results of the subsidiary undertakings set out in note 14.

Each subsidiary is 100% owned by the Eckoh Group and is considered to be a related party.

Directors and key management includes the staff costs of the Directors and the Management Team.

	2018 £'000	2017 £'000
<b>Directors and other key management</b>		
Wages and salaries	856	806
Social security costs	619	235
Pension costs	37	75
Share-based payments	50	19
	<b>1,562</b>	<b>1,135</b>

During the year share options were exercised by one Director, Nik Philpot. Nik Philpot exercised options over 6,423,974 ordinary Shares making a gain of £2,826,549. From the proceeds of the gain, Nik Philpot satisfied the income tax arising from the exercise and retained 1,021,412 ordinary Shares with a value of £449,421. During the financial year ending 31 March 2017, Nik Philpot did not exercise any share options.

### Rented Apartment

An apartment owned by a director, Nik Philpot, is rented to Eckoh Group for use by company employees when on business. The rent is paid on a monthly basis and was charged at comparable market rates. The expense in the year was £17,388 (2017: £16,920). The amount outstanding to them at the end of the current year was £4,347 (2017: £4,230). There were no amounts written off in the current or prior year.

Chris Batterham is also a director of NCC Group Security Services Limited who provide services to Eckoh Group. Chris Batterham resigned as Non-Executive Chairman to Eckoh plc on 20 September 2017. The amount outstanding to NCC Group Security Services Limited at the end of the current year was £nil (2017: £5,328). The expense in the year was £60,907 (2017: £59,933).

## 24. Operating lease commitments

The Group had total commitments under non-cancellable operating leases, payable as follows:

### Land and buildings

	2018 £'000	2017 £'000
Less than one year	428	209
Between one and five years	534	226
	<b>962</b>	<b>435</b>

The Group has an operating lease for a data centre in Heathrow, London at which some of its call processing platform is located. The lease was renewed in July 2017 for a further 3 years at a cost of £333,740 per annum.

The Group took out a lease on a car in March 2018. The lease covers the period to February 2020 at a cost of £4,811 per annum.

Eckoh US has a lease on a New York office which covers the period to March 2019 at a cost of £27,977 per annum. They have a further lease on an Omaha office which covers the period to February 2021 at a cost of £61,136 per annum.

## 25. Cash flow from operating activities

	2018 £'000	2017 £'000
Profit after taxation	2,660	1,439
Interest income	(34)	(43)
Finance income	(975)	-
Interest payable	118	142
Taxation	(225)	184
Deferred tax	-	-
Depreciation of property, plant and equipment	914	1,058
Exchange differences	(263)	226
Amortisation of intangible assets	2,654	2,619
Share based payments	554	132
Operating profit before changes in working capital and provisions	5,403	5,757
(Increase)/decrease in inventories	(11)	35
Decrease/(increase) in trade and other receivables	1,722	(2,243)
Increase in trade and other payables	(1,270)	(1,074)
<b>Net cash generated in operating activities</b>	<b>5,844</b>	<b>2,475</b>

## 26. Events after the Statement of Financial Position Date

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2018 of 0.55 pence per ordinary share be paid to the Shareholders whose names appear on the register at the close of business on 28 September 2018 with payment on 26 October 2018. The ex-dividend date will be 27 September 2018. This recommendation will be put to the Shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.4m.

## 27. Transactions relating to acquisitions

In the prior year, the Company incurred acquisition related costs of £319,000 to the income statement which were included in exceptional expenses in the Group's Consolidated Statement of Comprehensive Income. £219,000 of these related to external legal fees, due diligence and valuation fees relating to the acquisition of K2C. £21,000 related to aborted acquisition costs. £79,000 related to ongoing costs in relation to the acquisition of PSS.

## 28. Acquisition of Klick2Contact EU Limited

When the company was acquired on 20 July 2016, it was agreed that additional consideration would be paid based on the performance of the K2C business against certain financial criteria in the first 24 months post acquisition. During the year, it has become apparent that the financial criteria is not going to be met. As a result contingent consideration of £975,000, which had previously been provided for was released during the year.



## Company Financial Statements

### Company Statement of Financial Position

as at 31 March 2018

	Notes	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Investments	iii	24,012	23,458
Investment property	iv	2,929	2,972
		<b>26,941</b>	26,430
<b>Current assets</b>			
Trade and other receivables	v	2	-
Cash and cash equivalents		6,309	2,670
		<b>6,311</b>	2,670
<b>Total assets</b>		<b>33,252</b>	29,100
<b>Current liabilities</b>			
Trade and other payables	vi	(16,653)	(10,356)
		<b>(16,653)</b>	(10,356)
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	vi	(3,250)	(5,525)
<b>Total liabilities</b>		<b>(19,903)</b>	(15,881)
<b>Net assets</b>		<b>13,349</b>	13,219
<b>Equity attributable to equity holders of the parent</b>			
Share capital	viii	631	611
ESOP reserve		(238)	(83)
Capital redemption reserve		198	198
Share premium		2,640	2,660
Merger reserve		2,697	2,697
Share-based payment		2,469	1,915
Currency reserve		71	147
Profit and loss account		4,881	5,074
<b>Shareholders' funds</b>		<b>13,349</b>	13,219

The financial statements were approved and authorised for issue by the Board of Directors on 13 June 2018 and signed on its behalf by:

Chrissie Herbert  
CHIEF FINANCIAL OFFICER

Company Registration Number 3435822

### Statement of changes in equity

	Share capital £'000	ESOP reserve £'000	Capital redemption reserve £'000	Merger reserve £'000	Share premium £'000	Share based payment £'000	Currency reserve account £'000	Profit and loss account £'000	Total shareholders' equity £'000
<b>Balance at 1 April 2016</b>	600	(17)	198	2,353	2,612	1,783	56	6,386	13,971
<b>Total comprehensive income</b>									
Profit for the year	-	-	-	-	-	-	-	(242)	(242)
<b>Total comprehensive income</b>								<b>(242)</b>	<b>(242)</b>
<b>Transactions with owners of the company</b>									
<b>Contributions and distributions</b>									
Dividends	-	-	-	-	-	-	-	(1,084)	(1,084)
Purchase of own shares	-	(82)	-	-	-	-	-	-	(82)
Shares issued on acquisition of K2C	2	-	-	344	-	-	-	-	346
Shares issued under the share option schemes	9	-	-	-	43	-	-	-	52
Shares acquired by Employee Benefit Trust	-	16	-	-	5	-	-	14	35
Currency reserve	-	-	-	-	-	-	91	-	91
Share option charge	-	-	-	-	-	132	-	-	132
<b>Total contributions and distributions</b>	<b>11</b>	<b>(66)</b>	<b>-</b>	<b>344</b>	<b>48</b>	<b>132</b>	<b>91</b>	<b>(1,070)</b>	<b>(510)</b>
<b>Balance at 31 March 2017</b>	<b>611</b>	<b>(83)</b>	<b>198</b>	<b>2,697</b>	<b>2,660</b>	<b>1,915</b>	<b>147</b>	<b>5,074</b>	<b>13,219</b>
<b>Balance at 1 April 2017</b>	611	(83)	198	2,697	2,660	1,915	147	5,074	13,219
<b>Total comprehensive income</b>									
Loss for the year	-	-	-	-	-	-	-	1,065	1,065
<b>Total income</b>								<b>1,065</b>	<b>1,065</b>
<b>Transactions with owners of the company</b>									
<b>Contributions and distributions</b>									
Dividends	-	-	-	-	-	-	-	(1,209)	(1,209)
Purchase of own shares	-	(156)	-	-	-	-	-	-	(156)
Shares issued under the share option schemes	20	-	-	-	(20)	-	-	-	-
Shares acquired by Employee Benefit Trust	-	1	-	-	-	-	-	(49)	(48)
Currency reserve	-	-	-	-	-	-	(76)	-	(76)
Share option charge	-	-	-	-	-	554	-	-	554
<b>Total contributions and distributions</b>	<b>20</b>	<b>(155)</b>	<b>-</b>	<b>-</b>	<b>(20)</b>	<b>554</b>	<b>(76)</b>	<b>(1,258)</b>	<b>(935)</b>
<b>Balance at 31 March 2018</b>	<b>631</b>	<b>(238)</b>	<b>198</b>	<b>2,697</b>	<b>2,640</b>	<b>2,469</b>	<b>71</b>	<b>4,881</b>	<b>13,349</b>

## Notes to the Company's Financial Statements for the year ended 31 March 2018

### i. Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

#### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliation for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share-based payments

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

No judgements made by the Directors, in the application of these accounting policies have a significant effect on the financial statements.

#### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, cash and cash equivalents and loans and borrowings.

##### Investments

Investments in subsidiaries are stated at amortised cost less impairment.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### Non-derivative financial instruments

##### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### Going Concern

Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company is a going concern. As part of its normal business practice, the Company is included within annual and longer term plans prepared by management, and, in reviewing this information, the Company's Directors are satisfied that the Company has reasonable resources to enable it to continue in business for the foreseeable future. For this reason, the Company continues to adopt the going concern basis in preparing these financial statements.

The principal accounting policies adopted by the Company are described below.

#### Related Party transactions

IAS 24 Related Party requires to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. There is an exemption in the reduced disclosure framework from disclosing a related party transaction where the related part as entered into between two or more members of a group, provided that any subsidiary which is a party to a transaction is wholly owned by such a member.

#### Own shares held by ESOP trust

Transactions of the Company-sponsored Employee Share Ownership Plan ('ESOP') trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

#### Share-based payments

The Company operates a share option scheme which allowed certain Group employees to acquire shares in the Company. The fair value of share options granted is recognised within the staff costs of the relevant Group company with a corresponding increase in equity. The fair value is measured at grant date and spread over the period up to the date when the recipient becomes unconditionally entitled to payment.

The fair value of share options was measured using either a Monte Carlo valuation model or the QCA-IRS option valuer using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold of vesting.

The Company also operates a long-term incentive plan. The fair value of the conditional awards of shares granted under the long-term incentive plan determined at the date of grant. The fair value is then expensed on a straight-line basis over the vesting period based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria and total shareholder return defined in the long-term incentive plan will be reconsidered and the expense will be revised as necessary.

IFRS 2 has been applied to all options granted after 7 November 2002 which have not vested on or before 1 January 2006. A deferred tax adjustment is also made relating to the intrinsic value of the share options at the balance sheet date.

As a result of the grant of share options since 6 April 1999 the Company will be obliged to pay employer's National Insurance contributions on the difference between the market value of the underlying shares and their exercise price when the options are exercised. A provision is made for this liability using the value of the Company's shares at the balance sheet date and is spread over the vesting period of the share options. The provision is held by the relevant Group company who employs the share option holders.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase to equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

#### Dividends

Final dividends are recorded in the Financial Statements in the period in which they are approved by the Shareholders. Interim dividends are recognised when paid.

#### Cash flow statement

The cash flows of the Company are included in the Consolidated Cash Flow Statement on page 55.

### Investment property

The Investment Property comprises of freehold land and office buildings that are held for capital appreciation.

The land is recognised at cost and is not depreciated. The Investment property was initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful life of years which is 25 years. The residual value, useful life and depreciation method of the investment property is reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the profit or loss when the changes arise.

### iii. Fixed asset investments

	Shares in subsidiary undertakings £'000	Other investments £'000	Total £'000
At 1 April 2016	22,881	3,961	26,842
Additions	3,470	132	3,602
At 31 March 2017	26,351	4,093	30,444
Additions	-	554	554
<b>At 31 March 2018</b>	<b>26,351</b>	<b>4,647</b>	<b>30,998</b>
<b>Impairment</b>			
<b>At 1 April 2016, 31 March 2017 and At 31 March 2018</b>	<b>(6,986)</b>	<b>-</b>	<b>(6,986)</b>
<b>Net Book Value</b>			
<b>At 31 March 2018</b>	<b>19,365</b>	<b>4,647</b>	<b>24,012</b>
At 31 March 2017	19,365	4,093	23,458

The Directors have assessed the carrying values of the Company's investments, and concluded that no impairment triggers exist that would require the Company's investments to be impaired. The investment in Eckoh Projects Limited has been fully returned in previous years and therefore has no current value.

### ii. Operating expenses

#### Staff costs

Details of the Directors' emoluments are given in the Directors' Report on page 43. The Director's remuneration costs are borne by a subsidiary undertaking. The Company did not incur any staff costs during the year (2016: £nil). The average number of employees employed by the company during the year was 5 (2016: 4).

#### Services provided by the Group's auditor

Fees payable for the audit of the parent company and consolidated accounts of £15,000 (2017: £15,000) were borne by a subsidiary undertaking.

Other investments represent additional investments in Eckoh UK Limited as a result of the share-based payments arrangements in place. As the Company grants options over its shares to employees of Eckoh UK Limited, the Company records an increase in its investment in Eckoh UK Limited, the details of which are disclosed further in note 21 of the consolidated financial statements. The disclosure of these amounts has been reclassified between categories during the year.

The Company has the following investments in subsidiaries, which are included in the Consolidated Financial Statements:

Subsidiary undertakings	Country of incorporation	Principal activities	Percentage of share capital held
Eckoh UK Limited	England and Wales (i)	Speech Solutions	100%
Veritape Limited	England and Wales (i)	Non trading	100%
Eckoh LLC	United States of America (ii)	Non trading	100%
Eckoh Projects Limited	England and Wales (i)	Non trading	100%
Intelliplus Group Limited	England and Wales (i)	Dormant	100%
Telford Projects Limited	England and Wales (i)	Dormant	100%
Product Support Solutions Inc	United States of America (iii)	Support Solutions	100%
Klick2Contact EU Ltd	England and Wales (i)	Cloud-based Software Provider	100%

(i) The registered office is Telford House, Corner Hall, Hemel Hempstead, HP3 9HN.

(ii) The registered office is c/o National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, Delaware 19904.

(iii) The registered office is 7172 Regional Street, #431, Dublin, California 94568.

The subsidiary undertaking Klick2Contact EU Limited (registered number: 07553916) is exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act.

### iv. Investment property

	UK Office £'000
<b>Cost</b>	
At 1 April 2017	3,068
Additions	-
<b>At 31 March 2018</b>	<b>3,068</b>
<b>Depreciation</b>	
At 1 April 2017	96
Charge for the year	43
<b>At 31 March 2018</b>	<b>139</b>
<b>Carrying amount</b>	
<b>At 31 March 2018</b>	<b>2,929</b>
At 31 March 2017	2,972

### v. Trade and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Prepayments and accrued income	2	-
Amounts due within one year	2	-

## vi. Trade and other payables

	31 March 2018 £'000	31 March 2017 £'000
<b>Current</b>		
Amounts owed to Group undertakings	15,333	8,996
Other creditors and accruals	20	60
Loan due within one year	1,300	1,300
Amounts due within one year	16,653	10,356
<b>Non-Current</b>		
Loan due over one year	3,250	4,550
Contingent consideration	-	975
Amounts due over one year	3,250	5,525
	<b>19,903</b>	<b>15,881</b>

The loan is detailed further in note 3 to the consolidated accounts.

## vii. Deferred taxation

	31 March 2018 £'000	31 March 2017 £'000
Total unprovided deferred tax assets are as follows:		
Tax losses available	10,757	10,870
Unprovided deferred tax asset	1,829	1,848

## viii. Share capital

## Allotted, called up and fully paid

Share type	Number of shares	Nominal value £'000
Ordinary Shares of 0.25p each		
As at 1 April 2017	244,299,546	611
Shares issued under the share option schemes	8,213,974	20
As at 31 March 2018	252,513,520	631

## ix. Share options and share-based payments

Share options and share-based payments are disclosed in note 21 to the consolidated financial statements.

## x. Related party transactions

The Company has taken advantage of the exemption conferred by IAS 24 that transactions between wholly owned Group companies do not need to be disclosed.

## xi. Events after the balance sheet date

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2018 of 0.55 pence per ordinary share be paid to the Shareholders whose names appear on the register at the close of business on 28 September 2018 with payment on 26 October 2018. The ex-dividend date will be 27 September 2018. This recommendation will be put to the Shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.4m.

## Shareholder Information

Dealings permitted on Alternative Investment Market (AIM) of the London Stock Exchange.

## Directors and Company Secretary

<b>G.L. Millward</b>	Non-Executive Director
<b>C.M. Batterham</b>	Non-Executive Chairman ( <i>resigned 20 September 2017</i> )
<b>C.J. Humphrey</b>	Non-Executive Chairman ( <i>appointed 21 June 2017</i> )
<b>D.J. Coghlan</b>	Non-Executive Director ( <i>appointed 1 December 2017</i> )
<b>N.B. Philpot</b>	Chief Executive Officer
<b>A.P. Moloney</b>	Group Finance Director and Company Secretary ( <i>resigned 2 May 2017</i> )
<b>C.G. Herbert</b>	Chief Financial Officer and Company Secretary ( <i>appointed 2 May 2017</i> )

## Registered Office

Eckoh plc  
Telford House  
Corner Hall  
Hemel Hempstead  
Hertfordshire HP3 9HN

[www.eckoh.com](http://www.eckoh.com)

Registered in England and Wales  
Company number 3435822.

## Registrar

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Nominated  
Advisor and  
Nominated Broker

Nplus1 Singer Capital  
Markets Limited  
One Bartholomew Lane  
London EC2N 2AX

## Solicitor

Mills & Reeve LLP  
Botanic House  
100 Hills Road  
Cambridge CB2 1PH

## Banker

Barclays Bank plc  
11 Bank Court  
Hemel Hempstead  
Hertfordshire HP1 1BX

## Auditor

KPMG LLP  
Altius House  
One North Fourth Street  
Milton Keynes MK9 1NE



**Eckoh**

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