Netcall

# TRANSFORMING CUSTOMER ENGAGEMENT

**Netcall plc**

Annual Report and Accounts
for the year ended 30 June 2017

Stock code: NET

# WELCOME TO NETCALL

Netcall helps organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, thereby improving customer experiences and operational efficiencies. Netcall's software product portfolio comprises Liberty, a customer engagement platform, incorporating omnichannel contact centre and workforce optimisation, and a leading low-code platform MATS.

liberty™

## LIBERTY® CUSTOMER ENGAGEMENT PLATFORM

Cloud, hybrid or on premise suite of customer engagement applications:

- Multichannel contact centre
- Customer experience management
- Workforce optimisation

MATS®

## MATS® LOW-CODE PLATFORM

Cloud-based drag & drop configuration to develop apps:

- Process & data modelling
- Integration, automation & communication
- UI, mobile & forms
- Reporting

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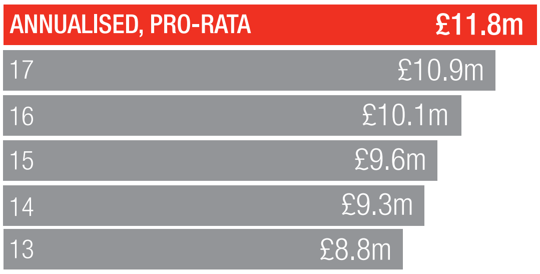
**View more online: netcall.com**

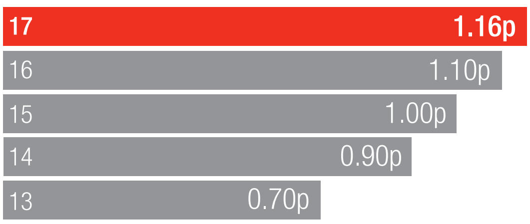
# FINANCIAL AND OPERATIONAL HIGHLIGHTS

## CORE RECURRING REVENUE




## ADJUSTED EBITDA


## ORDINARY DIVIDEND




## FINANCIAL HIGHLIGHTS

- Robust bookings in the period:
  - Significant increase in mix of cloud services contracts
  - Order book of contracted future minimum revenues increased by 13% to £17.0m (2016: £15.0m)
- Annualised recurring core revenues[1] increased by 8% to £11.8m (2016: £10.9m)
- Recognised revenue of £16.2m (2016: £16.6m) as a result of transition to a cloud revenue model
- Adjusted EBITDA[2] increased 1% to £4.49m (2016: £4.46m)
- Operating profit increased to £1.62m (2016: £1.61m)
- Diluted basic earnings per share of 1.03p (2016: 1.32p)
- Maintained strong cash conversion, with net cash generated from operations of £4.36m (2016: £4.81m)
- Net cash funds of £12.7m (2016: £14.1m) at year-end after payment of dividends of £4.16m (2016: £3.05m)
- Final ordinary dividend of 1.16p proposed, an increase of 5% (2016: 1.10p)

## OPERATIONAL HIGHLIGHTS

- Robust trading with up- and cross-sales accounting for majority of new business across both private and public sectors
- Liberty cloud platform driving new business wins with 6 of the 10 largest orders received in the period for cloud-based contracts
- Significant enhancements to the product suite released during the year including making available all substantial functionalities of Liberty in the cloud
- Major new version of Liberty Customer Engagement Centre under development to be released later in the year
- The post year-end acquisition of low-code software provider, MatsSoft, to complement Netcall's Liberty platform, provides access to new markets and adds to cloud revenue stream

[1] annualised revenue from support and maintenance and hosted service contracts as at 30 June.

[2] profit before interest, taxation, depreciation, amortisation, acquisition and non-recurring transaction expenses and share-based payments.

STRATEGIC REPORT

# CHAIRMAN'S AND CHIEF EXECUTIVE'S REVIEW

"We are pleased with progress in the year which was in line with our strategy of positioning the business towards the high growth cloud market. Netcall has enjoyed a period of robust trading resulting in an 8% increase in annualised recurring revenue and a 13% increase in our order book for contracted future minimum revenues. Furthermore, the investment we have made in the business has delivered significant progress against our technology roadmap, leaving the Group better placed to sustain long-term financial performance.

"The acquisition of MatsSoft post period end has added to our cloud business and has provided us with access to the fast growing low-code market. Whilst only a month since the acquisition, early progress has been made and we remain excited by the synergies and prospects ahead. Netcall has started the new financial year with a considerably larger market opportunity, an advanced product offering, a resilient profitable business with high levels of revenue visibility and a growing pipeline of sales. This leaves us confident in the Group's continued growth prospects."

**HENRIK BANG**
CEO of Netcall

## INTRODUCTION

Netcall had a robust trading period with an increasing share of the sales mix coming from cloud service offerings, in line with the Group's cloud transition strategy. The growing proportion of cloud-based contracts enhances the Group's visibility over future periods by adding to the recurring revenue base.

The success of this transition is evidenced by the growth in the annualised run-rate of core recurring revenue, which increased 8% since the start of the year to £11.8m at year end. Consequently, revenue of a recurring nature increased to 70% of total revenue (2016: 64%). As Netcall enters the new financial year, the order book for contracted future minimum revenues has increased by 13% to £17.0m (2016: £15.0m).

During the year the Group continued its investment plan with a focus on enhancing its cloud capabilities in order to capitalise on the fast-growing market opportunity for cloud-based customer engagement solutions. Post year-end Netcall completed the acquisition of MatsSoft Limited ('MatsSoft'), a leading cloud-based low-code software provider, bringing valuable capabilities to the Netcall product suite and access to the new low-code market.

The cash position at the end of the period was £12.7m (2016: £14.1m) following the payment of the enhanced dividend and ordinary dividends of £4.16m (2016: £3.05m).

The Board is proposing a final ordinary dividend of 1.16p, an increase of 5% year on year.

## ACQUISITION OF MATSSOFT

Netcall completed the acquisition of MatsSoft on 4 August 2017 (see note 30 for further information). MatsSoft's low-code software platform enables rapid delivery of enterprise-grade business applications with a minimum of development and IT effort. This addresses the growing gap between organisations' demand for business applications and the resources available to deliver these solutions.

MatsSoft complements Netcall's Liberty platform and enhances its ability to drive organisations' digital transformation and competitive differentiation more quickly and more effectively. The acquisition also provides Netcall with access to a new market, adding high growth digital revenue streams to its product suite, and accelerates migration to the cloud.

## STRATEGY

Netcall's purpose is to help organisations transform their customers' engagement activities and enable digital transformation faster and more efficiently, thereby improving customer experiences and operational efficiencies.

The Group achieves this by delivering innovative solutions which are easy to use, functional and delivered on our integrated customer engagement platform, Liberty. The Liberty platform provides a broad range of modular end-to-end solutions with a focus on omnichannel customer engagement centre, workforce optimisation and customer experience management. The modular nature of the platform enables customers to choose one or many applications while also offering a roadmap to support their future customer engagement strategies.

The acquisition of MatsSoft will enhance private and public sector organisations' ability to benefit from these Liberty solutions. By gaining case study

NCP

## CONTACT CENTRE SOLUTION THAT GIVES GREATER VISIBILITY OF CUSTOMERS AND THEIR INTERACTIONS

**As a long standing customer of Netcall's QMax solution, NCP chose ContactCentre 59R to replace their current ACD which was end-of-life. It provides NCP with deep seamless integrations with their Microsoft Dynamics CRM, as well as QMax and other pre-existing systems.**

The majority of calls come through to the NCP contact centre through intercoms at ticket machines or car park barriers. When an intercom call is connected to an advisor, a workflow and camera feed are automatically started and shared to the agent's desktop. They gain greater visibility of the customer and any previous interactions and also detailed information about the location of their issue.

- Reduced handling of emails from 3 weeks to 2 days
- Greater visibility of contact across multiple channels
- Improved contact centre reporting.

access to the powerful capabilities of the low-code MatsSoft platform, customers and partners are able to develop enterprise business applications with ease and speed which can integrate or supplement the Liberty solutions. In addition, the MatsSoft platform can be used throughout the organisation to support other business functions, as is the case today, where it is used for a wide range of applications including mortgage applications processing, customer onboarding and customer notifications.

The Board's strategy is to incorporate Liberty functionality into the low-code platform creating a low-code enabled Customer Engagement and Experience suite of applications. These applications together with apps created by customers and partners can be made available via new channels including the MatsSoft App-store, thereby enhancing the distribution and breadth of the platform capabilities.

The Group's key drivers for organic growth include taking advantage of the cloud opportunity while expanding the product suite, including to the low-code platform. This enables the business to continue to unlock the huge potential from Netcall's large existing customer base with up- and cross-sales and growing by winning new customers from a larger market.

In addition, the Board continues to look for selective acquisitions with complementary proprietary software and/or additional customers in our target markets.

## BUSINESS REVIEW

### MARKETS

The key market driver for Netcall's solutions is the ongoing changes in consumer demand and expectations when interacting with organisations, combined with technological advances making unprecedented digitalisation of business operations possible. Today's consumers, whether using private or public services, are increasingly well informed and expect organisations to provide intuitive interfaces, around-the-clock availability, personalised treatment, first contact resolution and real-time fulfilment using multiple channels. In return an organisation can reap significant benefits from digitising and automating their operation, including gaining a much better understanding of their customers, building important competitive advantages from providing 'best-in-class' customer experiences as well as improved efficiencies and reduced costs. As a result many businesses see the customer experience and the ability to quickly change and adapt to new demands as a sustainable source of competitive differentiation.

To achieve these ambitions organisations' demand for software business applications are rising sharply whereas the supply of resources capable of delivering these applications grows at a much slower rate, creating a growing gap inhibiting organisations' ability to execute their plans. Therefore organisations, in addition to purchasing standard software packages, increasingly use low-code platforms to drive digital transformation and competitive differentiation. According to Forrester[1], companies report that their low-code platforms can help them accelerate development by five to ten times.

The implementation of new technologies merged with changing business models creates substantial opportunities in assisting organisations to transform their customer engagement strategies. The Liberty platform delivers this comprehensive functionality. It provides a flexible entry point and upgrade path thereby giving organisations the level and quality of customer interaction they need as well as additional competitive advantages such as lower costs, improved operational controls and risk management.

Netcall's continued investment in the Liberty platform's cloud capabilities is aimed to take advantage of the growing market, a key component for customer engagement solutions, which the Board expects to grow at double-digit rates in the coming years.

In addition, according to Forrester, the low-code market is still in its infancy and is forecasted to grow at double-digit rates in the coming years as corporate adoption increases to drive digital transformation and migration to cloud solutions. Netcall's ability to complement its transition to the cloud market with the emerging low-code market means that the Group's overall addressable market is now larger than before.

[1] Forrester, Vendor Landscape: The Fractured, Fertile Terrain Of Low-Code Application Platforms (January 2016). Forrester, listed on NASDAQ, is an influential research and advisory firm.

STRATEGIC REPORT

# CHAIRMAN'S AND CHIEF EXECUTIVE'S REVIEW
CONTINUED

### CUSTOMER WINS

Netcall's customer base continues to provide the Group with a highly valuable source of new business, with up- and cross-sales to existing customers accounting for the majority of new business in the period across both private and public sectors.

Examples of customer wins for Liberty include:

- A new three-year contract with a leading managed IT network and service provider, delivering a cloud-based customer engagement centre to two London Borough Councils.
- A new four-year contract with a leading multichannel business process outsourcing organisation, delivering a 2,000 agent Workforce Management solution.
- A new three-year contract with a Government Executive Agency, delivering a cloud-based citizen self-service and case management solution.

Netcall continues to receive high customer satisfaction ratings for its overall service and this combined with ongoing product development means the Group enjoys with its customers a position as a trusted technology partner.

### PRODUCT DEVELOPMENT

In line with Netcall's strategy, investment in the business continues to ensure it is well positioned to take advantage of the growth trends in the market. During the year, the Group continued its investment in the Liberty platform focusing on cloud solutions. This has resulted in the significant advancement of our cloud capabilities over the period.

All the substantial functionalities of the Group's on-premise solution suite have been made available on its cloud platform. Further enhancements to this platform have been developed during the year including a new version of the Liberty contact centre focusing on new improved user experience and functionality. This solution is built on a new architecture and technology stack for easier and more scalable cloud deployments and enables more seamless integration and reporting with other Liberty solutions. In addition, a new advanced capability has been embedded into our Customer Experience Management ('CXM') solution which allows rapid creation of automated workflows and forms that are designed once and deployed immediately to agents, end-customers and remote workers to support organisations' digital transformation programmes. This has been combined with further enhancements to the mobile app providing remote workers with access to more information from the central CXM system and making it available offline thereby improving functionality and productivity for mobile workers. These advances were released post year-end and the result has been a positive reception from our target base and the opening of new opportunities.

Furthermore, the addition of low-code capabilities to our product suite following the acquisition of MatsSoft has enhanced Netcall's roadmap. As stated above, we intend to also deliver Liberty Cloud solutions on our low-code platform thereby creating a low-code enabled Customer Engagement and Experience suite of applications. The Board believes this will allow the Group to increase the reach and distribution of its Liberty solutions and open up opportunities with new customers.

### FINANCIAL REVIEW

The Group reported revenue of £16.2m (2016: £16.6m) in line with management's expectations for the year.

Revenue which is considered to be recurring in nature, derived from cloud and support contracts, increased by 8% to £10.9m (2016: £9.57m) which equates to 69% (2016: 63%) of revenues (excluding MovieLine) with strong growth in the cloud revenue stream. As at 30 June 2017, the annualised value of such revenues increased by 8% to £11.8m (2016: £10.9m).

Revenue from product and professional service sales decreased to £4.86m (2016: £6.06m) due to the on-going transition to cloud revenue models and the timing of closing certain public sector opportunities.

The aggregate value, at 30 June 2017, of contracted minimum income that is to be recognised as core revenue in future financial periods increased by 13% to £17.0m (2016: £15.0m).

case study

Maritime and Coastguard Agency

**LIFESAVING COMMUNICATION TOOL DEVELOPED FOR HM COASTGUARD, IN 5 WEEKS**

**Working with Netcall's low-code MATS platform, HM Coastguard developed a new communication application, aiming to reduce incident response times and ultimately, save more lives.**

MATS sends out a text message to each volunteer. Volunteers are told where the incident is, what's happened and what to do when they arrive at the scene. They then reply to the text message to inform the command centre of their status before making their way direct to the scene, when appropriate.

- Call-out communications tool for around 3,500 volunteers nationally
- Reduces command centre call traffic and incident response time
- Allows volunteers to send an SOS signal and track their location should they get into difficulties
- Delivered in 5 weeks.

MatsSoft complements Netcall's Liberty platform and enhances its ability to drive organisations' digital transformation and competitive differentiation more quickly and effectively.

Revenue from the non-core MovieLine service decreased to £0.36m (2016: £0.44m) in line with management's expectations.

The Group's gross profit margin was improved by 0.5 percentage points to 91.7% (2016: 91.2%).

Administrative expenses, before depreciation, amortisation, non-recurring transaction costs and share-based charges, decreased by 4% to £10.3m (2016: £10.7m), as a result of lower variable costs.

Consequently, the Group recorded adjusted EBITDA of £4.49m (2016: £4.46m), a margin of 28% of revenue (2016: 27%).

The Group reported a tax charge for the year of £0.21m (2016: credit £0.15m). The effective rate of tax at 13% was lower than headline rates principally as a result of tax relief available for research and development.

Reported diluted earnings per share was 1.03 pence (2016: 1.32 pence). Adjusted diluted earnings per share was 1.95 pence (2016: 2.13 pence).

Cash generated from operations before payment of non-recurring transaction costs was £4.36m (2016: £5.10m), representing 97% of adjusted EBITDA (2016: 114%) as a result of working capital timing differences.

Expenditure on research and development including capitalised expenditure was £2.00m (2016: £2.20m). Capitalised software development expenditure was 15% higher at £1.33m (2016: £1.16m) due to investment in new product development in the year.

Total capital expenditure was £1.74m (2016: £1.74m); the balance after capitalised development being £0.40m (2016: £0.58m) relating primarily to investment in the Group's cloud platform.

As a result of these factors, cash was £12.7m at 30 June 2017 (30 June 2016: £14.1m).

On 4 August 2017, the Company acquired 100% of the issued share capital of MatsSoft for an initial consideration of £11.1m and the issue of 3.5m new ordinary shares of 5p each. Potential further amounts of up to £2.3m cash and 9.5m new ordinary shares are also payable dependent on achieving specified performance targets achieved over various periods from completion of the acquisition. See note 30 for further details.

Immediately prior to the acquisition of MatsSoft the Company entered into an agreement with Business Growth Fund for a £7.0m investment. The investment comprises the issue of a £7.0m Loan Note and the award of options over 4,827,586 new ordinary shares of 5p each at a price of 58p per share. The Loan Note has an annual interest rate of 8.5% payable quarterly in arrears and is repayable in six instalments from 30 September 2022 to 31 March 2025.

## DIVIDEND

The Company announced an enhanced dividend policy on 29 September 2015, which was supplemental to the ordinary dividend policy and subject to the Group having not completed an acquisition. The Group has paid out £5.8m in total in enhanced dividends over the two-year period since the start of the programme. In line with the announced policy, the Company ended the enhanced dividend programme following the acquisition of MatsSoft.

The Board is proposing a final ordinary dividend of 1.16p, an increase of 5% year on year.

## OUTLOOK

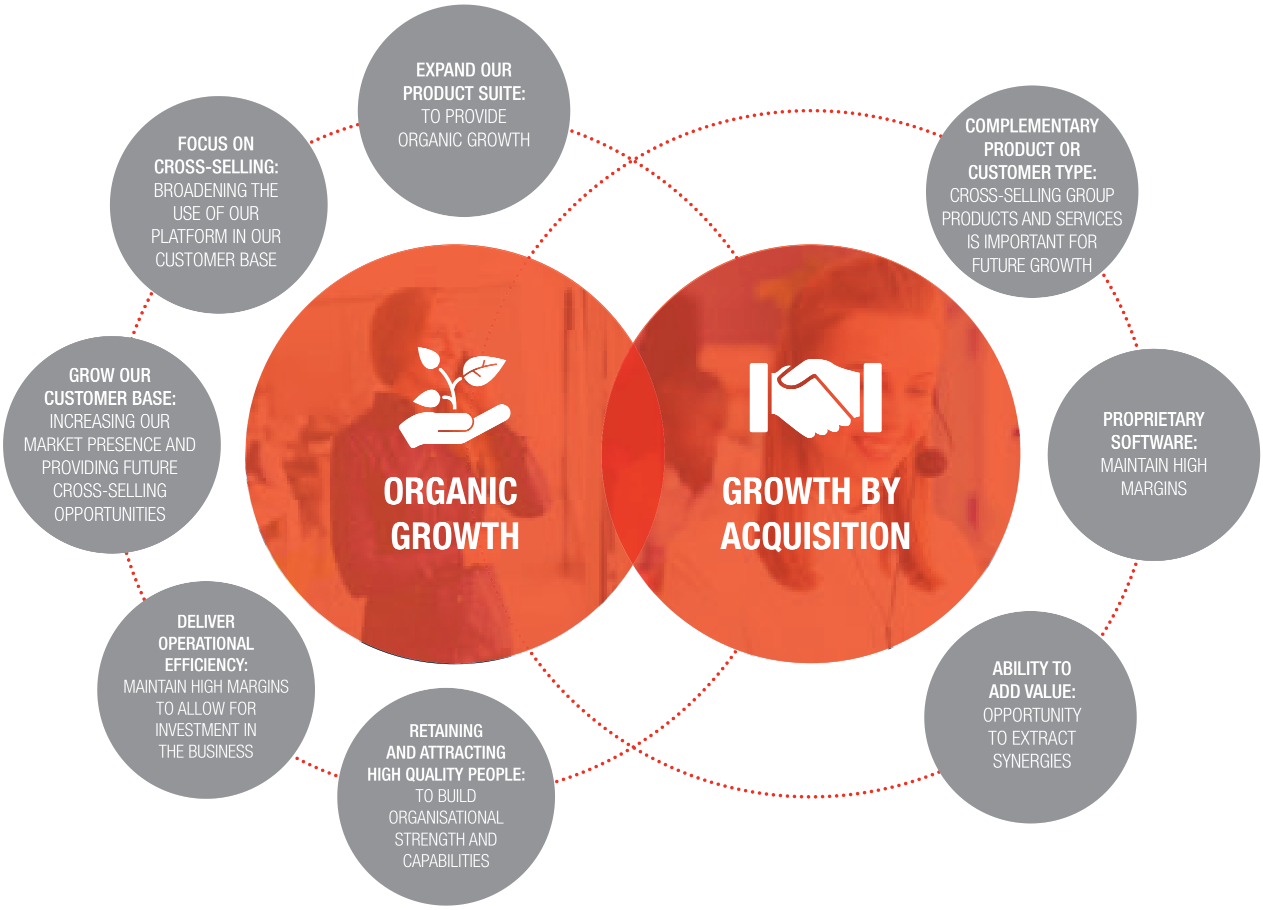
The Board is pleased with the progress in the year which was in line with its strategy of positioning the business towards the high-growth cloud market. Netcall has enjoyed a period of robust trading resulting in an 8% increase in annualised recurring revenue and a 13% increase in the order book for contracted future minimum revenues. Furthermore, the investment in the business has delivered significant progress against the Group's technology roadmap, leaving the Group better placed to sustain long-term financial performance.

The acquisition of MatsSoft post period end has added to the Group's cloud business and has provided it with synergies and access to the fast-growing low-code market. Netcall has started the new financial year with a considerably larger market opportunity, an advanced product offering, a resilient profitable business with high levels of revenue visibility and a growing pipeline of sales. This leaves the Board confident in the Group's continued growth prospects.

STRATEGIC REPORT

# BUSINESS MODEL

Success is ensured by focusing on the following primary value drivers:




# KEY PERFORMANCE INDICATORS

The Directors monitor a wide range of financial and operating measures to track the Group's progress. There are six core key performance indicators ('KPIs') which are set out below. A review of these KPIs is provided in the Chairman's and Chief Executive's review:

| | **2017** | 2016 | Change |
|---|---|---|---|
| Core revenue (£m) | **15.8** | 16.2 | –2% |
| Core revenue recurring in nature (£m) | **10.9** | 10.1 | 8% |
| Gross profit margin (%) | **92%** | 91% | 1 ppt |
| Adjusted EBITDA (£m) | **4.49** | 4.46 | 1% |
| Cash generated from operations before payment of non-recurring transaction costs (£m) | **4.36** | 5.10 | –15% |
| **Total equity (£m)** | **21.0** | 22.6 | –7% |

STRATEGIC REPORT

# PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Group and considered by the Board are:

| RISK AREA AND POTENTIAL IMPACT | MANAGEMENT OF RISKS |
|---|---|
| **ECONOMIC**<br>• The Group's markets may fall into decline.<br>• Weak economic conditions, including the potential impact of the UK's vote to leave the European Union, may affect the ability of the Group's clients to do business. | • The Group has a diversified portfolio of customers and vertical markets.<br>• Innovative solutions are offered in a variety of ways to best suit each customer's business needs including traditional software licensing or payment by subscription via software as a service. |
| **ACQUISITIONS**<br>• The Group may fail to execute its acquisition strategy successfully or retain key acquired personnel or encounter difficulties in integrating acquired operations. | • Before an acquisition, management commissions financial and legal due diligence reports to highlight potential risks and post-acquisition it implements an integration plan which is monitored. |
| **INTELLECTUAL PROPERTY RIGHTS ('IPR')**<br>• The Group is reliant on IPR surrounding its internally generated and licensed-in software. It may be possible for third parties to obtain and use the Group's IPR without its authorisation. Third parties may also challenge the validity and/or enforceability of the Group's IPR.<br>• There is a supply risk of losing key software partners. This would have an impact on the Group as it sought to identify and then train staff in alternative products. | • The Group relies upon IPR protections including patents, copyrights and contractual provisions.<br>• The Group's product team monitors contracts and reviews and evaluates alternate suppliers. |
| **PRODUCT DEVELOPMENT**<br>• Competitors may develop similar products; the Group's technology may become obsolete or less effective; or consumers may use alternative channels of communication, which may reduce demand for the Group's products and services. In addition, the Group's success depends upon its ability to develop new, and enhance existing, products on a timely and cost effective basis, that meet changing customer requirements and incorporate technological advancements. | • The Group continues to monitor the market place for competitor development and maintains a significant investment in research and development. |
| **LOSS OF KEY MANAGEMENT AND STAFF**<br>• Could potentially lead to a lack of necessary expertise and continuity. | • The Group places a significant emphasis on staff retention. Key management and staff are incentivised via bonus plans and share schemes. |
| **PROJECT DELIVERY**<br>• The Group contracts for multiple projects each year to deliver products and services to clients. Failure to deliver large or even smaller projects can result in significant financial loss. | • The Group has proven procedures and policies for project delivery and regularly measures and reviews project progress. Regular testing of quality management processes is carried out. If issues arise on projects, senior management are involved to ensure timely resolution. |
| **DATA SECURITY AND BUSINESS CONTINUITY**<br>• The loss or failure of Netcall systems would impact both on the Group's operations and those of its hosted clients. | • The Group maintains formal data security policies and procedures and a documented business continuity and disaster recovery plan which are tested and regularly reviewed. |

This Strategic Report was approved by the Board on 25 September 2017 and signed on its behalf by:

**JAMES ORMONDROYD**
Director
25 September 2017

GOVERNANCE

# DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Netcall plc (the 'Company' or 'Netcall') and its subsidiaries (together the "Group") for the year ended 30 June 2017.

## RESULTS AND DIVIDENDS

The Group's profit for the year after tax was £1.48m (2016: £1.89m).

The Company announced, on 21 February 2017, an interim enhanced dividend of 1.05 pence per share (2016: 0.95 pence per share) which amounted to £1.46m and was paid on 27 July 2017 to shareholders whose names appeared on the register at the close of business on 14 July 2017.

Subject to shareholder approval at the Annual General Meeting to be held on 23 November 2017, the Board proposes paying a final ordinary dividend of 1.16 pence per share (2016: 1.10 pence per share). The estimated amount payable is £1.66m (2016: £1.32m). This would make a total ordinary dividend of 1.16 pence per share (2016: 1.10 pence per share) and an enhanced dividend of 1.05 pence per share (2016: 1.90 pence per share) for the year.

## RESEARCH AND DEVELOPMENT

The Group continues an active programme of research and development into telecoms software and products. The total expenditure for research and development excluding amortisation was £2.00m (2016: £2.20m) comprising £0.69m in the Consolidated income statement (2016: £1.14m) and £1.31m capitalised development expenditure (2016: £1.16m).

## POLITICAL DONATIONS AND POLITICAL EXPENDITURE

In accordance with the Board's policy no political donations were made or expenditure incurred during the year (2016: £nil).

## POST BALANCE SHEET EVENTS

For details of post balance sheet events see note 30 of the consolidated financial statements.

## DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year ended 30 June 2017 are as follows:

| | |
|---|---|
| Henrik Bang | Chief Executive |
| James Ormondroyd | Group Finance Director |
| Michael Jackson | Chairman and Non-Executive Director |
| Michael Neville | Non-Executive Director |

Biographical details of persons currently serving as directors are set out on page 12.

## DIRECTORS' REMUNERATION

As the Company is quoted on the Alternative Investment Market of the London Stock Exchange ('AIM') it is not required to set out its remuneration policy but is doing so on a voluntary basis. As required by AIM Rule 19, the Company has disclosed below the remuneration received by its Directors during the financial year.

The Company's policy is to remunerate Directors appropriately to secure the skills and experience the Group needs to meet its objectives and reward them for enhancing shareholder value and returns. Each review is set in the context of the Group's needs, individual responsibilities, performance and market practice.

The main components of Executive Directors' remuneration comprise:

- basic salary
- performance related bonus
- defined contribution to personal pension plan
- other benefits such as car allowances, medical and life assurance
- share option scheme

The basic salary of the Executive Directors is reviewed annually by the Remuneration Committee, with changes, if any, taking effect on 1 December of each year.

The Executive Directors participate in a bonus plan linked to the achievement of financial and individual performance targets set by the Remuneration Committee. The bonus plan is structured so as to pay 100% of salary for Henrik Bang and James Ormondroyd, respectively, on achieving targets. Bonuses payable are subject to the discretion of the Remuneration Committee after taking into account an overall view of the Group's performances and its assessment of financial and personal performance. In the year ended 30 June 2017, performance against targets resulted in a bonus award of 3.7% of salary for Henrik Bang and 5.3% for James Ormondroyd.

In December 2013 the Company effected a Long Term Incentive Plan ("LTIP") designed to provide the senior management team with share options vesting upon the attainment of certain criteria including the performance of the Company's ordinary share price up to £1.20 from the date of grant until 30 April 2019. Further details are set out below.

The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Company's Articles of Association and is based on fees paid in similar companies and the skills and expected time commitment required by the individual concerned.

The service contracts and letters of appointment of the Directors include the following terms:

| | Date of appointment | Notice period |
|---|---|---|
| **Executive Directors** | | |
| Henrik Bang | 13 February 2004 | 12 months |
| James Ormondroyd | 30 July 2010 | 12 months |
| **Non-Executive Directors** | | |
| Michael Jackson | 23 March 2009 | 12 months |
| Michael Neville | 30 July 2010 | 12 months |

GOVERNANCE

The table below sets out the detailed emoluments of each Director who served during the year:

| | Salary and fees £000 | Benefits in kind £000 | Bonus £000 | 2017 Total £000 | 2016 Total £000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Henrik Bang | **273** | **19** | **10** | **302** | 439 |
| James Ormondroyd | **196** | **16** | **10** | **222** | 300 |
| **Non-Executive Directors** | | | | | |
| Michael Jackson | **55** | **–** | **–** | **55** | 54 |
| Michael Neville | **32** | **–** | **–** | **32** | 31 |
| | **556** | **35** | **20** | **611** | 824 |

The table below sets out the contributions by the Company to Directors' personal pension schemes during the year:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Executive Directors** | | |
| Henrik Bang | **20** | 20 |
| James Ormondroyd | **9** | 26 |
| | **29** | 46 |

The table below sets out share options granted to Directors:

| Date of grant | Earliest exercise date | Expiry date | Exercise price (pence) | Number at 1 July 2016 and 30 June 2017 |
|---|---|---|---|---|
| Henrik Bang | | | | |
| 29.04.14[(1)] | 30.04.17 | 30.04.21 | 5.0 | **7,000,000** |
| | | | | **7,000,000** |
| James Ormondroyd | | | | |
| 29.04.14[(1)] | 30.04.17 | 30.04.21 | 5.0 | **4,100,000** |
| Michael Jackson | | | | |
| 29.04.14[(1)] | 30.04.17 | 30.04.21 | 5.0 | **1,000,000** |
| | | | | **12,100,000** |

[(1)] LTIP options are conditional on certain vesting criteria including: various share price hurdles based on the average share price over 40 business days up to a share price of £1.20 from the date of grant until 30 April 2019; and, the option holder being in employment during the vesting period. Once vested up to half may be exercised from 30 April 2017 to 30 April 2021 and the other half from 30 April 2019 to 30 April 2021.

The closing mid-market price of the Company's shares at 30 June 2017 was 66.5 pence. During the financial year the share price reached a high of 70.0 pence and a low of 48.3 pence.

GOVERNANCE

# DIRECTORS' REPORT
CONTINUED

## DIRECTORS' INDEMNITY AND INSURANCE
The Group maintained insurance cover during the year for its Directors and Officers and those of subsidiary companies under a Directors and Officers liability insurance policy against liabilities which may be incurred by them while carrying out their duties.

On 19 September 2011, the Group agreed to indemnify James Ormondroyd to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of his powers, duties and responsibilities as a Director of Netcall Telecom, Inc. This indemnity is a Qualifying Third Party Indemnity Provision as defined in Section 234 of the Companies Act 2006 and a copy is available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

## CORPORATE GOVERNANCE
The Company's statement on corporate governance can be found in the corporate governance report on pages 13 to 14 of this annual report.

## EMPLOYEES
The Group encourages employee involvement in the business at all levels with the human capital of Netcall being the key to continuing success. All employees are remunerated according to results and wherever possible participate in bonus incentive schemes.

Every effort is made to keep all staff informed and involved in the operations and progress of the Group. This is achieved through the use of electronic communications, the Group's intranet, employee representative meetings and staff briefings.

The Group is an equal opportunities employer. Its policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of gender, race, disability, colour, nationality, ethnic or national origin, marital status, sexuality, responsibility for dependents, religion or belief, trade union activity and age. Selection criteria and procedures are kept under review to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. Fair consideration is given to applications for employment from disabled people and the retention and retraining, where practicable, of employees who become disabled is encouraged.

## POLICY AND PRACTICE ON PAYMENT OF CREDITORS
The Group recognises the importance of good relationships with its suppliers and subcontractors. Although the Group does not follow any particular code or standard on payment practice, its established payment policy is to agree payment terms in advance of any commitment being entered into and to seek to abide by these agreed terms provided that the supplier has also complied with them. Trade creditor days for the Company for the year were 23 days (2016: 42 days), this measure is variable due to the parent company making a limited number of purchases in the period.

## FINANCIAL INSTRUMENTS
Financial instruments, including financial risk management objectives and policies and policies for hedging, exposure to market risk, credit risk and liquidity risk are disclosed in note 3 to the consolidated financial statements.

## SHARE CAPITAL
Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 13 to the consolidated financial statements.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. At the date of this report the share capital of the Company consisted of 142,702,439 issued and fully paid ordinary shares with a nominal value of 5p per share, quoted on AIM, together with 1,869,181 ordinary 5p shares held in Treasury.

There are no specific restrictions on the size of holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Details of employee share schemes are set out in note 14 to the consolidated financial statements.

## AUDITOR
Grant Thornton UK LLP, who were re-appointed on 24 November 2016, have expressed their willingness to continue in office as auditors and a resolution to appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

## ANNUAL GENERAL MEETING
The Annual General Meeting will be held at the offices of TaylorWessing LLP, 5 New Street Square, London, EC4A 3TW on 23 November 2017 at 10.30am. Details and an explanation of the resolutions to be proposed are contained in the Notice of Annual General Meeting and explanatory notes either sent to shareholders with the annual report or available on the Company`s website, netcall.com.

By order of the Board

**JAMES ORMONDROYD**
Director
25 September 2017

GOVERNANCE

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected to prepare the Parent Company financial statements in accordance with United Kingdom 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the EU, and applicable United Kingdom Accounting Standards have been followed for the Group and Parent Company respectively, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

GOVERNANCE

# DIRECTORS AND ADVISERS

## CHAIRMAN

Michael Jackson*^~(67) joined the Board in March 2009. He founded Elderstreet Investments Limited in 1990 and is its Executive Chairman. For the past 25 years, he has specialised in raising finance and investing in the smaller companies quoted and unquoted sector. Michael has been Chairman of two FTSE 100 companies and from 1997 until August 2006 was Chairman of The Sage Group plc.

## CHIEF EXECUTIVE OFFICER

Henrik Bang (59) was appointed to the Board in February 2004. Previously he was Vice President in GN Netcom 1999-2004, part of the Danish OMX listed GN Great Nordic Group. Before that he held a number of international management positions in IBM and AP Moller-Maersk Line.

## GROUP FINANCE DIRECTOR

James Ormondroyd (45) was appointed to the Netcall Board on the acquisition of Telephonetics plc on 30 July 2010 where he served as the Finance Director and Company Secretary for 5 years, previously he was the Finance Director and Company Secretary at World Television Group plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

## NON-EXECUTIVE DIRECTOR

Michael Neville*^~ (63) was appointed to the Netcall Board on 30 July 2010 following the acquisition of Telephonetics plc where he served as a Non-Executive Chairman from July 2005. He has extensive experience in capital markets and serves as a Non-Executive Director for a number of AIM quoted companies. His background is in the telecommunications and technology and media arena.

* denotes membership of the Audit sub-committee of the Board
^ denotes membership of the Remuneration sub-committee of the Board
~ denotes membership of the Nomination sub-committee of the Board

## COMPANY REGISTRATION NUMBER:

01812912

## REGISTERED OFFICE:

3rd Floor, Hamilton House
111 Marlowes
Hemel Hempstead
HP1 1BB

## DIRECTORS:

M Jackson
H Bang
J Ormondroyd
M Neville

## SECRETARY:

M Greensmith

## BANKERS:

Lloyds Bank plc
Black Horse House
Progression Centre
42 Mark Road
Hemel Hempstead
HP2 7DW

## NOMINATED ADVISERS:

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

## REGISTRARS

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
B63 3DA

## SOLICITORS

TaylorWessing LLP
5 New Street Square
London
EC4A 3TW

Orme & Slade Limited
NatWest Bank Chambers
The Homend
Ledbury
Herefordshire
HR8 1AB

## AUDITORS:

Grant Thornton UK LLP
Chartered Accountants and
Registered Auditor
101 Cambridge Science Park
Milton Road
Cambridge
CB4 0FY

# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

As the Company is quoted on AIM it is not required to, and does not comply with, the UK Corporate Governance Code (the 'Code'). However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the Code we consider to be relevant to the Company. The main exceptions are that:

- The Directors forming the Remuneration and Audit Committees are not independent, as defined by the Code because Michael Neville became a Director of the Company following the acquisition of Telephonetics plc, of which company he was a Director, and Michael Jackson was appointed a Director and Chairman without the intervention of a Nomination Committee. Each of these Directors holds shares in the Company and Michael Neville is a Director of other companies in the Group.
- The Board does not undertake a formal evaluation of its performance, as this is constantly under review given its size.

## BOARD RESPONSIBILITIES

The Board's principal responsibilities are to deliver shareholder value, maintain reliable systems of control and provide the overall vision and leadership for the Company. It determines corporate strategy, reviews the Group's operating and financial performance to ensure it is effectively controlled, and is the primary decision-maker for all matters considered to be significant to the Group as a whole.

There is an agreed formal schedule of matters reserved for approval by the Board including the approval of acquisitions, budgets, commercial strategy, major capital expenditure, treasury policy, corporate governance, risk control and the appointment of new Directors.

## BOARD COMPOSITION AND BALANCE

The Board, chaired by Michael Jackson, comprises two Executive Directors and two Non-Executive Directors. Collectively, the Directors have a wide range of relevant business and financial experience and knowledge which is vital to the success of the Group. Biographical details of the Directors are on page 12.

The Chairman and Chief Executive have clearly defined and distinct roles. The Chairman is responsible for corporate governance and the efficient operation of the Board. The Chief Executive is responsible for the day-to-day operation of the Group and leads the communication programme with analysts and potential investors.

## BOARD PROCESS

The Board carries out its duties with the assistance of the Board committees. The Board meets regularly during the year and additional meetings are arranged as necessary for specific purposes. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

All Directors have access to the advice and services of the Company Secretary, who ensures that the Board meets formally at least ten times per year, receives appropriate and timely information for decision making, that Board procedures are followed and that statutory and regulatory requirements are met. Any Director, in order to fulfil his duties, may take independent professional advice at the Company's expense.

The table below shows the number of monthly meetings individual Directors could have attended during the year (taking account of eligibility, appointment and retirement dates) and their actual attendance.

| | Number of meetings | Number of meetings attended |
|---|---|---|
| Henrik Bang | 11 | 11 |
| James Ormondroyd | 11 | 11 |
| Michael Jackson | 11 | 11 |
| Michael Neville | 11 | 11 |

The Board has procedures in place to deal with potential conflicts of interest and confirms that the procedures have operated effectively during the year under review.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Directors are responsible for risk assessment and the systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

**Company management:** The Board has put in place a system of internal controls, set within a clearly defined organisational structure with well understood lines of responsibility, delegation of authority, accountability, policies and procedures. Managers assume responsibility for running day-to-day operational activities with performance regularly reviewed and employees are required to follow procedures and policies appropriate to their position within the business.

**Business risks:** The Board is responsible for identifying, evaluating and managing all major business risks facing the Group. To facilitate the assessment of risks, monthly reports on non-financial matters are received by the Board covering such matters as sales and operations performance and research and development progress.

**Financial management:** An annual operating budget is prepared by management and reviewed and approved by the Board. Monthly accounts comparing current year performance with budget together with key performance metrics are received and discussed by the Board. The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions.

**Quality management:** The Group is focused on meeting the highest levels of customer satisfaction. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.

**Internal audit:** The Directors do not currently believe that an additional separate internal audit function is appropriate for the size and complexity of the Group but will continue to periodically review the position. The Group is ISO9001 and ISO27001 accredited which has been independently audited.

GOVERNANCE

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

## ELECTION AND RE-ELECTION OF DIRECTORS
Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. The Company's Articles require that one third of the current Directors must retire as Directors by rotation.

## DIRECTORS' INDEMNITY AND INSURANCE
In accordance with the Articles of Association, the Company has provided indemnities to the Directors (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. The Company has taken out an insurance policy in respect of those liabilities for which Directors may not be indemnified. Neither the indemnity nor insurance provides cover in the event that a Director is proved to have acted dishonestly or fraudulently.

## AUDIT COMMITTEE
The Audit Committee assists the Board to discharge its responsibilities for ensuring the integrity of the financial information reported to shareholders, meeting with and recommending the appointment and resignation of the Company's auditor and ensuring that non-audit services do not impact on the objectivity and independence of the Company's auditor. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Audit Committee. The Audit Committee is chaired by Michael Neville and meets on at least 2 occasions each year. The Group's auditor has direct access to the Audit Committee at any time to raise any matters of concern or for discussion. The table below shows the number of meetings individual members could have attended during the year (taking account of eligibility, appointment and retirement dates) and their actual attendance.

| | Number of meetings | Number of meetings attended |
|---|---|---|
| Michael Jackson | 3 | 3 |
| Michael Neville | 3 | 3 |

## REMUNERATION COMMITTEE
The Remuneration Committee's principal function is to review the performance of the Executive Directors, recommend the setting of their remuneration and bonus payments and for considering the grant of share options to Directors and employees. The Committee is chaired by Michael Neville. Details of the Directors' remuneration can be found on page 09. The table below shows the number of meetings individual members could have attended during the year (taking account of eligibility, appointment and retirement) and their actual attendance.

| | Number of meetings | Number of meetings attended |
|---|---|---|
| Michael Jackson | 3 | 3 |
| Michael Neville | 3 | 3 |

## NOMINATION COMMITTEE
The Nomination Committee comprises the Chairman and a Non-Executive Director. It is chaired by Michael Jackson. The principal functions are to review the structure, size and composition of the Board, consider succession and identify and nominate Board candidates. The nomination committee did not meet during the year.

## RELATIONS WITH SHAREHOLDERS
The Board attaches great importance to maintaining good relationships with its shareholders.

Following the announcement of the half-year and year-end results, a series of formal meetings with institutional shareholders is undertaken which allows the Executive Directors to form relationships with the investors and for the shareholders to raise any concerns.

The Company's brokers and financial PR advisers provide feedback from investor and analyst meetings which are presented to the Board. The Annual General Meeting also provides an opportunity for the Board to communicate directly with shareholders. The Company maintains a website which contains information on the Group, regulatory announcements and financial statements: netcall.com.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NETCALL PLC

## OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Netcall plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of the significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## WHO WE ARE REPORTING TO

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.

## CONCLUSIONS RELATING TO GOING CONCERN

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

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

## OVERVIEW OF OUR AUDIT APPROACH

- Overall Group materiality: £179,000, which represents 4% of the Group's preliminary adjusted earnings before interest, tax, depreciation and amortisation ('adjusted EBITDA').
- We performed full scope audit procedures at Netcall plc, Telephonetics Limited and Netcall Telecom Limited; and
- Key audit matters were identified as presumed risk of improper revenue recognition, goodwill and impairment.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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.

GOVERNANCE

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NETCALL PLC CONTINUED

| KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **PRESUMED RISK OF IMPROPER REVENUE RECOGNITION**<br>Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>The Group has a number of distinct revenue streams; the main streams are support contracts, projects (product & professional services) and hosted services. There is a requirement for management to make significant judgements around timing and extent of recognition, especially where revenue is recognised as a proportion of total estimated costs of a project. There is also judgement around recognition of the different streams where elements are sold together as a bundled contract. Consideration is required to determine whether each component is considered to represent a separable good or service and a fair value can be reliably estimated.<br><br>We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• Consideration of the stated accounting policies in respect of revenue recognition and whether these are consistent with International Accounting Standard (IAS) 18 'Revenue';<br>• For product and professional services and hosted services revenue, a sample of amounts recognised were verified to timesheets, purchase orders and customer contracts;<br>• For support contract revenue, contracts were obtained, revenue recognised was recalculated and the appropriateness of any accrued or deferred income balances was verified; and<br>• Analytical review of revenue recognised in the year including variance review and ratio analysis.<br><br>The Group's accounting policy on revenue is included in note 2 (r) to the financial statements and related disclosures on revenue recognition are shown in note 5.<br><br>**KEY OBSERVATIONS**<br>Our audit work did not identify any errors in the calculations of revenue recognised in the year or any instances of revenue not being recognised in accordance with stated accounting policies. |
| **GOODWILL IMPAIRMENT**<br>There is a risk that goodwill recognised on historical acquisitions may be impaired. An annual impairment review is required in order to assess the carrying value of the acquired goodwill.<br><br>Management's assessment of the potential impairment of the Group's intangible assets incorporated significant judgements in assumptions, such as timing and extent of future revenues, gross margin and discount rate used.<br><br>The Directors and management consider that there is one cash generating unit (CGU) and so all intangibles are allocated to this CGU.<br><br>We therefore identified the impairment of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• Consideration of the appropriateness of the methodology applied by management in their assessment of impairment and the judgements applied;<br>• Assessing the design and implementation of controls in respect of the impairment review process;<br>• Checking of the mathematical accuracy of the impairment models;<br>• Checking appropriateness of the forecast growth rates;<br>• Comparison of historical forecasts against actual results;<br>• Assessing the discount rate applied to future cash flows; and<br>• Evaluating the information included in the impairment models through our knowledge of the business and discussions with management.<br><br>The Group's accounting policies on goodwill and its impairment are shown in notes 2(h) and 2(i) respectively and related disclosures on goodwill is shown are included in note 7.<br><br>**KEY OBSERVATIONS**<br>Our testing did not identify any reasons for impairment of goodwill to be recognised within the financial statements and we found no errors in calculations completed. |

| KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **CAPITALISATION OF INTANGIBLE ASSETS**<br>£1.6m of costs have been capitalised into intangible assets in the year (2016: £1.3m).<br><br>There is a risk that the costs capitalised do not meet the criteria for capitalisation in accordance with International Accounting Standard (IAS) 38 Intangible Assets.<br><br>We therefore identified the capitalisation of development costs as a significant risk. | Our audit work included, but was not restricted to:<br>• Assessment as to whether projects meet the recognition criteria for capitalisation under IAS 38;<br>• Obtained capitalisation workings and checked mathematical accuracy of these and obtaining support for any judgements used by management;<br>• Testing the amounts being capitalised to supporting information, including timesheets and salary data; and<br>• Checking appropriateness of the forecast growth rates.<br><br>The Group's accounting policy and related disclosures on intangible assets including their capitalisation, is shown in note 2 (h) to the financial statements and related disclosures are included in note 7.<br><br>**KEY OBSERVATIONS**<br>Intangibles capitalised during the year were found to be in accordance with stated accounting policies and supporting documentation. We found no errors in the calculations. |

## OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

| MATERIALITY MEASURE | GROUP | PARENT |
|---|---|---|
| Financial statements as a whole | Financial statement materiality is £179,000 which is 4% of the Group's preliminary adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA'). This benchmark is considered the most appropriate because this is a key measure used by management in assessing performance of the business. EBITDA is adjusted for share based payment charges, as the Directors are of the opinion that these are disproportionate to the size and level of activity of the business.<br><br>Materiality for the current year is higher than the level that we determined for the year ended 30 June 2016, which reflects the change in benchmark used to calculate materiality. In the prior year materiality was calculated using 5% of Profit before taxation (PBT). As noted above it was our opinion for this year that preliminary Adjusted EBITDA was a more appropriate benchmark given the prominence of EBITDA in management reporting. 4% of Adjusted EBITDA was used to take into account that PBT is a smaller number than EBITDA. | Financial statement materiality is £114,000 which is 4% of Parent Company's Adjusted EBITDA. This benchmark is considered the most appropriate because this is a key measure used by management in assessing performance of the business. EBITDA is adjusted for acquired intangibles amortisation and share based payment charges, as the Directors are of the opinion that these are disproportionate to the size and level of activity of the business.<br><br>Materiality for the current year is higher than the level that we determined for the year ended 30 June 2016, which reflects the change in benchmark used to calculate materiality. In the prior year materiality was calculated using 5% of Profit before taxation (PBT). As noted above it was our opinion for this year that Adjusted EBITDA was a more appropriate benchmark. 4% of Adjusted EBITDA was used to take into account that PBT is a smaller number than EBITDA. |

GOVERNANCE

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NETCALL PLC CONTINUED

| MATERIALITY MEASURE | GROUP | PARENT |
|---|---|---|
| Performance materiality used to drive the extent of our testing | 75% of financial statement materiality | 75% of financial statement materiality |
| Specific materiality | We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions | We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions |
| Communication of misstatements to the audit committee | £8,950 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds | £5,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The charts below illustrate how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

OVERALL MATERIALITY – GROUP

OVERALL MATERIALITY – PARENT


## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was based on a thorough understanding of the Group's business and is risk based. We take into account the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed at each entity, which in particular included the following considerations:

- Netcall plc has centralised processes and controls over the key areas of our audit focus. Group management are responsible for all judgemental processes and significant risk areas. All accounting is centralised and we have tailored our audit response accordingly with all audit work undertaken by the audit team. In assessing the risk of material misstatement to the Group financial statements we considered the transactions undertaken by each entity and therefore where the focus of our work was required;
- We performed full scope audits of the financial information of the parent company Netcall plc, Telephonetics Limited and Netcall Telecom Limited. All other entities in the Group are dormant; and
- Our audit approach in the current year is consistent with 2016 although in the prior year we also performed a full scope audit on Serengeti Systems Limited which was hived into Netcall Telecom Limited in April 2016.

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 14, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept 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.

## RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of directors' responsibilities set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

**JEREMY READ**
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
25 September 2017

GOVERNANCE

# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Revenue** | 5 | **16,151** | 16,627 |
| Cost of sales | 1 | **(1,333)** | (1,463) |
| **Gross profit** | | **14,818** | 15,164 |
| Administrative expenses | 19 | **(13,209)** | (13,571) |
| Other gains/(losses) - net | 18 | **8** | 21 |
| **Adjusted EBITDA** | | **4,487** | 4,462 |
| Non-recurring transaction costs | 19 | **(320)** | – |
| Share based payments | 21 | **(1,171)** | (1,189) |
| Depreciation | 6 | **(212)** | (202) |
| Amortisation of acquired intangible assets | 7 | **(319)** | (880) |
| Amortisation of other intangible assets | 7 | **(848)** | (577) |
| **Operating profit** | | **1,617** | 1,614 |
| Finance income | 23 | **74** | 127 |
| Finance costs | 23 | **(5)** | (4) |
| Finance income – net | | **69** | 123 |
| **Profit before tax** | | **1,686** | 1,737 |
| Tax | 24 | **(211)** | 149 |
| **Profit for the year** | | **1,475** | 1,886 |
| **Earnings per share – pence** | | | |
| Basic | 25 | **1.06** | 1.37 |
| Diluted | 25 | **1.03** | 1.32 |

All activities of the Group in the current and prior periods are classed as continuing. All of the profit for the period is attributable to the shareholders of Netcall plc. The notes on pages 24 to 46 form part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2017

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Profit for the year | **1,475** | 1,866 |
| **Total comprehensive income for the year** | **1,475** | 1,866 |

All of the comprehensive income for the year is attributable to the shareholders of Netcall plc.

# CONSOLIDATED BALANCE SHEET
## AS AT 30 JUNE 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **473** | 565 |
| Intangible assets | 7 | **11,444** | 11,005 |
| Investments | 8 | **288** | 288 |
| Deferred income tax asset | 16 | **505** | 791 |
| **Total non-current assets** | | **12,710** | 12,649 |
| **Current assets** | | | |
| Inventories | 10 | **334** | 226 |
| Trade and other receivables | 11 | **4,431** | 5,170 |
| Current income tax asset | | **11** | 11 |
| Cash and cash equivalents | 12 | **12,724** | 14,122 |
| **Total current assets** | | **17,500** | 19,529 |
| **Total assets** | | **30,210** | 32,178 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Parent Company** | | | |
| Share capital | 13 | **7,054** | 7,027 |
| Share premium | 13 | **3,015** | 3,015 |
| Merger reserve | | **2,509** | 2,509 |
| Capital reserve | | **188** | 188 |
| Treasury shares | | **(419)** | (419) |
| Employee share schemes reserve | | **3,273** | 2,300 |
| Retained earnings | | **5,386** | 7,996 |
| **Total equity** | | **21,006** | 22,616 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 16 | **294** | 376 |
| Provisions | 17 | **122** | 118 |
| **Total non-current liabilities** | | **416** | 494 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **2,508** | 2,876 |
| Deferred income | | **6,280** | 6,192 |
| **Total current liabilities** | | **8,788** | 9,068 |
| **Total liabilities** | | **9,204** | 9,562 |
| **Total equity and liabilities** | | **30,210** | 32,178 |

The notes on pages 24 to 46 form part of these financial statements. These financial statements on pages 20 to 46 were approved and authorised for issue by the Board on 25 September 2017 and were signed on its behalf by:

**JAMES ORMONDROYD**
Director

Netcall plc, registered no. 01812912

FINANCIALS

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2017

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Capital reserve £000 | Treasury shares £000 | Employee share scheme reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2015** | **6,945** | **3,015** | **2,509** | **188** | **(419)** | **1,420** | **9,024** | **22,682** |
| Increase in equity reserve in relation to options issued | – | – | – | – | – | 1,139 | – | 1,139 |
| Tax debit relating to share options | – | – | – | – | – | (122) | – | (122) |
| Reclassification following exercise or lapse of options | – | – | – | – | – | (137) | 137 | – |
| Proceeds from share issue | 82 | – | – | – | – | – | – | 82 |
| Dividends to equity holders of the Company | – | – | – | – | – | – | (3,051) | (3,051) |
| **Transactions with owners** | 82 | – | – | – | – | 880 | (2,914) | (1,952) |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 1,886 | 1,886 |
| **Balance at 30 June 2016** | **7,027** | **3,015** | **2,509** | **188** | **(419)** | **2,300** | **7,996** | **22,616** |
| Increase in equity reserve in relation to options issued | – | – | – | – | – | 1,047 | – | 1,047 |
| Tax debit relating to share options | – | – | – | – | – | 1 | – | 1 |
| Reclassification following exercise or lapse of options | – | – | – | – | – | (75) | 75 | – |
| Proceeds from share issue | 27 | – | – | – | – | – | – | 27 |
| Dividends to equity holders of the Company | – | – | – | – | – | – | (4,160) | (4,160) |
| **Transactions with owners** | 27 | – | – | – | – | 973 | (4,085) | (3,085) |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 1,475 | 1,475 |
| **Balance at 30 June 2017** | **7,054** | **3,015** | **2,509** | **188** | **(419)** | **3,273** | **5,386** | **21,006** |

The notes on pages 24 to 46 form part of these financial statements.

FINANCIALS

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2017

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | **1,686** | 1,737 |
| Adjustments for: | | |
| Depreciation | **212** | 202 |
| Amortisation | **1,167** | 1,457 |
| Loss on disposal of intangible assets | **8** | – |
| Share-based payments | **1,171** | 1,189 |
| Net finance income | **(69)** | (123) |
| Changes in working capital: | | |
| Inventories | **(108)** | 3 |
| Trade and other receivables | **699** | 885 |
| Trade and other payables | **(399)** | (536) |
| **Cash generated from operations** | **4,367** | 4,814 |
| Analysed as: | | |
| Cash generated from operations before payment of non-recurring transaction costs | **4,367** | 5,104 |
| Non-recurring transaction costs payment | **–** | (290) |
| Interest paid | **(5)** | (4) |
| Income tax (paid)/ refunded | **(4)** | 183 |
| **Net cash generated from operating activities** | **4,358** | 4,993 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(121)** | (444) |
| Development expenditure capitalised | **(1,331)** | (1,163) |
| Purchase of other intangible assets | **(283)** | (135) |
| Interest received | **112** | 114 |
| **Net cash used in investing activities** | **(1,623)** | (1,628) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of ordinary shares | **27** | 82 |
| Dividends paid to Company shareholders | **(4,160)** | (3,051) |
| **Net cash used in financing activities** | **(4,133)** | (2,969) |
| **Net (decrease)/ increase in cash and cash equivalents** | **(1,398)** | 396 |
| Cash and cash equivalents at beginning of the period | **14,122** | 13,726 |
| **Cash and cash equivalents at end of period** | **12,724** | 14,122 |

The notes on pages 24 to 46 form part of these financial statements.

FINANCIALS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Netcall plc (the 'Company') and its subsidiaries (together the 'Group') design, develop and market communications, workforce management and business process management software and services to the healthcare, public and private sectors.

The Company is a public limited company which is quoted on AIM (a market of the London Stock Exchange) and is incorporated and domiciled in the UK. The Company's registered address is 3rd Floor, Hamilton House, 111 Marlowes, Hemel Hempstead, HP1 1BB and the Company's registered number is 01812912.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (A) BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### (B) GOING CONCERN

As a result of the level of cash generated from operating activities the Group has maintained a healthy liquidity position as shown on the consolidated balance sheet.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

### (C) CHANGES IN ACCOUNTING POLICIES

The Group has not applied any new accounting policies or made other retrospective changes that have a material effect on the consolidated statement of financial position as at 1 July 2016.

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 July 2016 are:

- IFRS 17 Insurance contracts (effective date 1 January 2021)*
- IFRS 16 Leases (effective 1 January 2019)*
- IFRIC Interpretation 22 Foreign currency transactions and advanced considerations (effective date 1 January 2018)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- Amendments to IAS 40 Transfers of investment property (effective 1 January 2018)*
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)*
- Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance contracts (effective 1 January 2018)*
- IAS 28 Investment in associates and joint ventures (effective 1 January 2018)*
- Classifications to IFRS 15 Revenue from contracts with customers (effective 1 January 2018)*
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)*
- Amendments to IAS 7: Disclosure Initiative (effective 1 January 2017)*
- Annual Improvements to IFRSs 2014-2016 Cycle Relating to IFRS 12 Disclosure of interest in other entities (effective 1 January 2017)*

* Not adopted by the EU (as at 1 September 2017).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IFRS 15 'Revenue from Contracts with Customers' is effective for the year beginning 1 July 2018. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces separate models for goods, services and construction contracts under the current accounting standards. The Group has completed an initial assessment of the impact of IFRS 15 and based on work performed to date it is not expected to have a significant impact on the Group's revenue streams.

IFRS 16 Leases (effective for the year beginning 1 July 2019, not yet endorsed by the EU) will require all leases to be recognised on the balance sheet. Currently, IAS 17 Leases only requires leases categorised as finance leases to be recognised on the balance sheet, with leases categorised as operating leases not recognised. Lessees will recognise a 'right of use' asset and a corresponding liability on the balance sheet. The asset will be amortised over the length of the lease and the liability measured at amortised cost. Existing operating lease commitments are set out in note 27. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Apart from IFRS 15 and IFRS 16 above, the Directors anticipate, based on the current business, that the future introduction of the standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

### (D) CONSOLIDATION

Subsidiaries are all entities over which the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns though its power over the investee. This is when the Group can direct decisions through the voting rights granted by ordinary shares that significantly impact its returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations (except Netcall UK Limited, (formerly Netcall Telecom Limited, see explanation below)). The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where a Group company has acquired an investment in a subsidiary undertaking and applies merger relief, under section 612 of the Companies Act 2006, the difference between the nominal value and fair value of the shares issued is credited to the merger reserve.

The Group elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to date of transition to IFRS from UK GAAP. Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition, 1 July 2006, if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. When Netcall plc acquired Netcall UK Limited in 1996, ordinary shares were issued to form the consideration. The UK GAAP merger accounting criteria were met and so a merger reserve was recognised. Due to the election not to apply IFRS 3 Business Combinations prior to the date of transition, this merger reserve has remained unchanged on transition to IFRS.

### (E) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

### (F) FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling (£), which is the Company's functional and the Group's presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to cash are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost, net of depreciation and any provision for impairment. Historical 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

- Computer equipment 3–7 years.
- Furniture, fittings and equipment 3–7 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (note 2(i)).

Gain and loss on disposal of an asset is determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) – net' in the income statement.

### (H) INTANGIBLE ASSETS

*ACQUIRED INTANGIBLE ASSETS*

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date and amortised over their expected useful economic life using the straight-line method. The expected useful economic life of intangible assets is assessed for each acquisition as it arises and is as follows:

- Brand names 18 months.
- Acquired software 4–15 years.
- Customer contracts and relationships 7–10 years.

*GOODWILL*

Goodwill represents the excess of the fair value of the consideration transferred on acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no reinstatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

*TRADEMARKS AND LICENCES*

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3 to 10 years.

*INTERNALLY GENERATED SOFTWARE DEVELOPMENT COSTS*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

FINANCIALS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Internally generated software development costs recognised as assets are carried at cost less amortisation, and amortised over their estimated useful lives which does not exceed four years.

### (I) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, and intangibles not yet ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (J) FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and various items such as trade receivables and trade payables that arise directly from its operations. Finance payments associated with financial liabilities are dealt with as part of finance expenses.

*FINANCIAL ASSETS*

The Group's financial assets are loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. They arise principally through the provision of services to customers (trade receivables), but also incorporate other types of contractual monetary asset such as deposits on rental property and prepayments, which are contractually recoverable. They are initially recognised at fair value and subsequently carried at amortised cost. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The equity investment in Macranet Limited is measured at cost less any impairment charges, as its fair value cannot be estimated reliably. Impairment charges are recognised in profit or loss.

*FINANCIAL LIABILITIES*

The Group's financial liabilities are trade payables and other financial liabilities. These liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

*SHARE CAPITAL*

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Further information on the Group's financial instruments can be found in note 3 and note 9.

### (K) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs are assigned using the first in, first out method. The cost of finished goods and work-in-progress comprises computer hardware and software, direct labour, other direct costs and relevant production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### (L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-deposits with a maturity of three months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (M) EQUITY

Equity comprises the following:

- Share capital which represents the nominal value of equity shares;
- Share premium which represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- Merger reserve includes the premium arising on the fair values ascribed to shares issued in the course of business combinations where over 90% of the issued share capital of the acquiree is acquired by the Parent Company;
- Capital reserve which represents amounts set aside following a capital reduction scheme;
- Treasury shares which represents own shares in Netcall plc purchased and retained by the Company;
- Employee share schemes reserve which represents equity-settled share-based employee remuneration until such share options are exercised; and
- Retained earnings which represent cumulative net gains and losses recognised in the consolidated income statement.

### (N) CURRENT AND DEFERRED TAXATION

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for 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 income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

### (O) EMPLOYEE BENEFITS – PENSIONS

Contributions to the Group's defined contribution pension scheme and employees' personal pension plans are charged to the income statement as employee benefit expenses when they are due. The Group has no further payment obligation once the contributions have been paid.

### (P) SHARE-BASED PAYMENTS

The Group operates a number of employee share schemes under which it makes equity-settled share-based payments to certain employees. The fair value of employee services received in exchange for the grant of the options is recognised as an expense and a credit to the employee share scheme reserve. The total amount to be expensed is determined by reference to the fair value of the options granted: including any market performance conditions and any non-vesting conditions but excluding the impact of any service and non-market performance vesting conditions (for example profitability targets and remaining an employee of the Group for a specified period).

Non-market conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.The liability for social security costs arising in relation to the awards is measured at each reporting date based upon the share price at the reporting date and the elapsed portion of the relevant vesting periods to the extent that it is considered that a liability will arise.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (Q) PROVISIONS

Provisions for vacant property obligations and associated costs and leasehold dilapidations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (R) REVENUE

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group recognises revenue on each element of a contract as follows:

- product – consists of software product license fees and hardware. Revenue is recognised when risks and rewards have passed to the customer and there is no significant on-going obligation upon the Group;
- professional services – consists primarily of consultancy, implementation services and training. Revenue from these services is recognised as the services are performed based on achievement of contract specific milestones, or using the percentage of completion method depending on the terms of the contract. The Group determines the stage of completion by reference to the cost incurred as a proportion of the total estimated costs of the service project.
- support contracts – provide clients with software updates, system monitoring and tuning and technical support services. Revenues are recognised on a straight line basis over the duration of the contract; and
- hosted services – revenues comprise: fixed fees and service charges, and telephony call and transaction charges. Fixed fees and service charges are recognised on a straight line basis over the duration of the contract. Telephony call and transaction charges are recognised when the call or transaction has been delivered over the Group's network.

Typically, a number of the above elements may be sold together as a bundled contract. Revenue is recognised separately for each component if it is considered to represent a separable good or service and a fair value can be reliably established. The Group derives fair value for its professional services based on day rates for consultants and for support contracts based on renewal prices. Where software is included within a bundled arrangement, the residual value of the contract is ascribed to the software after a fair value has been allocated to all other components.

Deferred revenues primarily relate to hosted services fixed fee and service charges and support contract fees, which have been invoiced to the customer prior to the performance of these services.

### (S) LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (T) DIVIDEND DISTRIBUTION

Dividend distributions payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders approved by the Board are not included in the financial statements until paid.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 3 FINANCIAL RISK MANAGEMENT

The Board has overall responsibility for the determination of the Group's financial risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing, operating and reporting thereof to the Group's finance function. The overall objective is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### (A) FINANCIAL RISK FACTORS

The principal financial instruments used by the Group are cash and bank deposits, trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The main risks arising from these financial instruments are: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by the finance department under policies approved by the Board.

*FOREIGN EXCHANGE RISK*

The Group conducts some trade in Euros and US dollars and therefore holds a small amount of cash and trade balances in these currencies, as set out below:

| | US dollar £000 | Euro £000 | Total £000 |
|---|---|---|---|
| **At 30 June 2017** | | | |
| Trade and other receivables (excluding prepayments) | **9** | **3** | **12** |
| Cash and cash equivalents | **62** | **13** | **75** |
| Trade and other payables (excluding statutory liabilities) | **17** | **29** | **46** |
| | **88** | **45** | **133** |
| At 30 June 2016 | | | |
| Trade and other receivables (excluding prepayments) | 41 | 3 | 44 |
| Cash and cash equivalents | 95 | 43 | 138 |
| Trade and other payables (excluding statutory liabilities) | – | 27 | 27 |
| | 136 | 73 | 209 |

The Group does not consider there to be a material foreign exchange risk and therefore does not hedge against movements in foreign currency. A 10% movement in the exchange rate between sterling and the Euro or US dollar would not have a material effect on the net assets or net profit of the Group.

*INTEREST RATE RISK*

The Group has no significant debt therefore the Group's interest rate risk arises principally from bank deposits. The Group manages its cash held on deposit to gain reasonable interest rates whilst maintaining sufficient liquidity to support the Group's strategy by placing a proportion of cash into short term treasury deposits and retaining the balance in current accounts. The average interest rate gained on cash held during the year was 0.5% (2016: 0.7%). A 1% movement in interest rates would impact upon equity and net profit by approximately £99,000 (2016: £109,000).

*CREDIT RISK*

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meets its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess credit risk of new customers before entering contracts and actively manage the collections process. Historically, bad debts across the Group have been low. The concentration of credit risk is limited due to the large and unrelated customer base comprising mainly blue chip companies and public sector organisations. Credit risk also arises from cash deposits with banks. At the year-end the Group's cash deposits were held with two major UK clearing banks.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date. These are summarised within note 9. The Group's management considers that all the above financial assets that are not impaired for each of the balance sheet dates under review are of good credit quality, including those that are past due. See note 11 for more information of financial assets that are past due.

*LIQUIDITY RISK*

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Board reviews an annual 12-month financial projection as well as information regarding cash balances on a monthly basis. At the balance sheet date, liquidity risk was considered to be low given the fact the Group is cash generative, has no borrowings and cash and cash equivalents are thought to be at acceptable levels. While the Board considers there to be no need for borrowing facilities at the moment it continually monitors the Group's cash requirements.

FINANCIALS

## 3 FINANCIAL RISK MANAGEMENT CONTINUED

The Group's financial liabilities have contractual maturities as summarised below:

| | Within 6 months £000 | Between 1 and 2 years £000 | Between 2 and 3 years £000 | Total £000 |
|---|---|---|---|---|
| **At 30 June 2017** | | | | |
| Trade and other payables (excluding statutory liabilities) | **2,065** | **–** | **–** | **2,065** |
| | **2,065** | **–** | **–** | **2,065** |
| At 30 June 2016 | | | | |
| Trade and other payables (excluding statutory liabilities) | 2,445 | – | – | 2,445 |
| | 2,445 | – | – | 2,445 |

### (B) CAPITAL RISK MANAGEMENT

The Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and dividends. The Group has no debt facilities. An analysis of net capital is set out in the table below:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Cash and cash equivalents | **12,724** | 14,112 |
| Equity attributable to owners of the Parent Company | **21,006** | 22,616 |
| **Net capital** | **8,282** | 8,504 |

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares or debt. The Group has maintained cash balances at approximately 60% of equity throughout the period.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### REVENUE RECOGNITION

The Group recognises revenue on certain contracts such as during the period of performance, prior to an invoice being raised, where work has been completed and there is a high degree of certainty of the contract being completed and the invoice raised and cash received. In relation to professional services this involves estimating a percentage completion based on the direct labour costs incurred to date compared to the total project costs required to complete a project. The assessments and estimates used by the Group could have a significant impact on the amount and timing of revenue recognised on a project.

### IMPAIRMENT OF GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations which require the estimation of future cash flows and the selection of a discount rate in order to calculate the present value of cash flows. Further information including the carrying value is given in note 7.

### ACQUIRED INTANGIBLE ASSETS

On acquisition of a business, the Group is required to value the assets acquired and recognise intangible assets on the balance sheet. The valuation of these assets relies on various assumptions, including future revenues and costs derived from those assets and the selection of an appropriate discount rate in order to calculate the present value of those cash flows. These assets are subject to impairment reviews whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Further information including the carrying value is given in note 7.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Acquired intangible assets are amortised over their useful lives in accordance with the accounting policy stated in note 2(h). These useful lives are based on management's estimates of the period that the assets will generate revenue. These estimates are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Consolidated Income Statement in specific periods. The carrying value of intangible assets is given in note 7.

### INTERNALLY GENERATED SOFTWARE DEVELOPMENT COSTS

The Group is required to assess whether expenditure on research and development should be recognised as an internally generated intangible asset on the balance sheet. The recognition criteria include a number of judgments regarding the development's feasibility, the probable future economic benefits and being able to measure reliably the expenditure attributable to the intangible asset during its development. The assessments and estimates used by the Group could have a significant impact on the amount of expenditure capitalised. Details of the amounts capitalised in the year are set out in note 7.

Any such assets capitalised are: subject to impairment reviews whenever events or changes in circumstances indicate that the carrying amount may not be recoverable; and are amortised over their useful lives in accordance with the accounting policy stated in note 2(h). Changes to estimates can result in significant variations in the carrying value and amounts charged to the Consolidated Income Statement in specific periods. The carrying value of capitalised internally generated software development costs are set out in note 7.

### SHARE-BASED PAYMENTS

The fair value of share-based payments is estimated using the Monte Carlo valuation model or Black-Scholes option-pricing model as appropriate at the date of grant and using certain assumptions. These assumptions are disclosed in note 14.

### TAXATION

The Group is subject to United Kingdom corporate taxation and judgement is required in determining the provision for income and deferred taxation. The Group recognises taxation assets and liabilities based upon estimates and assessments of many factors including past experience, advice received on the relevant taxation legislation and judgements about the outcome of future events. To the extent that the final outcome of these matters is different from the amounts recorded, such differences will impact on the taxation charge made in the Consolidated Income Statement in the period in which such determination is made.

The Group has tax losses available for carrying forward against future taxable income of £2.77m (2016: £4.45m). The Group has recognised a deferred tax asset of £0.31m (2016: £0.63m) which is 58% of the total loss as management consider that it is more likely than not that the future taxable profits will exceed this amount within the next five years.

## 5 SEGMENT INFORMATION

Management consider that there is one operating business segment being the design, development, sale and support of software products and services, which is consistent with the information reviewed by the Board when making strategic decisions. Resources are reviewed on the basis of the whole business performance.

The key segmental measure is adjusted EBITDA which is profit before interest, taxation, depreciation, amortisation, acquisition and non-recurring expenses and share-based payments as set out in the Consolidated income statement.

A breakdown of revenue by category is as follows:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Product and professional services | **4,859** | 6,061 |
| Support contracts | **8,730** | 8,461 |
| Hosted services | **2,560** | 2,099 |
| Other services | **2** | 6 |
| | **16,151** | 16,627 |

The business is domiciled in the UK. The result of its revenue from external customers in the UK is £16.0m (2016: £16.4m), and the total from external customers from other countries is £0.18m (2016: £0.19m).

All non-current assets are located in the UK.

No single customer accounted for more than 10% of the Group's revenue in the year.

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## 6 PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fittings and equipment £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 30 June 2015 | 297 | 776 | 1,073 |
| Additions | 126 | 318 | 444 |
| At 30 June 2016 | 423 | 1,094 | 1,517 |
| Disposals | – | (1) | (1) |
| Additions | 4 | 117 | 121 |
| **At 30 June 2017** | **427** | **1,210** | **1,637** |
| **Accumulated depreciation** | | | |
| At 30 June 2015 | 226 | 524 | 750 |
| Depreciation charge | 52 | 150 | 202 |
| At 30 June 2016 | 278 | 674 | 952 |
| Disposals | – | – | – |
| Depreciation charge | 57 | 155 | 212 |
| **At 30 June 2017** | **335** | **829** | **1,164** |
| **Net book amount** | | | |
| At 30 June 2015 | 71 | 252 | 323 |
| At 30 June 2016 | 145 | 420 | 565 |
| **At 30 June 2017** | **92** | **381** | **473** |

Depreciation expense of £0.21m (2016: £0.20m) has been charged in ‘administrative expenses’.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 7 INTANGIBLE ASSETS

| | Customer contracts and relationships £000 | Brand £000 | Acquired software £000 | Goodwill £000 | Internally generated software development costs £000 | Trademarks and licences £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 30 June 2015 | 4,136 | 60 | 3,278 | 7,160 | 2,274 | 579 | 17,487 |
| Additions | – | – | – | – | 1,163 | 135 | 1,298 |
| Disposals | – | – | – | – | – | – | – |
| At 30 June 2016 | 4,136 | 60 | 3,278 | 7,160 | 3,437 | 714 | 18,785 |
| Additions | – | – | – | – | 1,331 | 283 | 1,614 |
| Disposals | – | – | – | – | (8) | – | (8) |
| **At 30 June 2017** | **4,136** | **60** | **3,278** | **7,160** | **4,760** | **997** | **20,391** |
| **Accumulated amortisation** | | | | | | | |
| At 30 June 2015 | 3,157 | 60 | 1,789 | – | 833 | 484 | 6,323 |
| Amortisation charge | 656 | – | 224 | – | 529 | 48 | 1,457 |
| Disposals | – | – | – | – | – | – | – |
| At 30 June 2016 | 3,813 | 60 | 2,013 | – | 1,362 | 532 | 7,780 |
| Amortisation charge | 147 | – | 172 | – | 773 | 75 | 1,167 |
| Disposals | – | – | – | – | – | – | – |
| **At 30 June 2017** | **3,960** | **60** | **2,185** | **–** | **2,135** | **607** | **8,947** |
| **Net book amount** | | | | | | | |
| At 30 June 2015 | 979 | – | 1,489 | 7,160 | 1,441 | 95 | 11,164 |
| At 30 June 2016 | 323 | – | 1,265 | 7,160 | 2,075 | 182 | 11,005 |
| **At 30 June 2017** | **176** | **–** | **1,093** | **7,160** | **2,625** | **390** | **11,444** |

Amortisation of £1.17m (2016: £1.46m) is included within ‘administrative expenses’.

### IMPAIRMENT TESTS FOR GOODWILL

The goodwill on the balance sheet relates to the acquisitions of: Q-Max Systems Limited, Telephonetics Limited and Serengeti Systems Limited. The trade and net assets of these businesses have subsequently been combined into the main Netcall trading subsidiary, which together are considered to be one cash-generating unit (‘CGU’). Goodwill was tested for impairment on 30 June 2017 following IAS 36 criteria. Management compared the carrying value of the CGU to the value-in-use, to confirm that no impairment of goodwill is necessary.

The Group prepares a cash flow forecast derived from the most recent financial budget approved by the Board for the year ending 30 June 2018 together with the most recent forecast for the year ending 30 June 2019 and extrapolates cash flows for three more years with a 3% growth assumption (2016: 3%). The forecast and growth assumption for the CGU is based on management’s experience and understanding of the market place for its software. Terminal values were calculated, based on the perpetuity of cash generated with no long term growth rate applied. Forecasts and terminal values for both cash-generating units were discounted at a pre-tax adjusted discount rate of 10% (2016: 10%). The pre-tax discount rates are based on the Group’s weighted average cost of capital.

No impairment was deemed necessary as shown in the table below:

| | Goodwill £000 | Acquired intangibles £000 | Carrying value £000 | Value in use £000 | Excess value in use £000 | Sensitivity £000 |
|---|---|---|---|---|---|---|
| Netcall | 7,160 | 1,269 | 8,429 | 18,775 | 10,346 | 123% |

The sensitivity shows the excess of value-in-use in relation to the carrying value of the CGU. Management is not aware of any probable changes that would require changes in its key estimates that would lead to impairment. The key assumption impacting the value in use is the revenue forecast.

## 8 INVESTMENTS

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Investment in Macranet Limited | **288** | 288 |

The Company has an investment in privately owned Macranet Limited (trading as "Sentiment"), a provider of enterprise class social media engagement solutions. The investment represents an equity interest in Macranet Limited. The investment is carried at fair value and the fair value measurement is classified as level 2 in the hierarchy as there is no quoted market for the shares. The valuation is based on the expected recoverable amount. Due to the fact that Sentiment is unlisted with limited trading history the fair value of this investment cannot be reliably measured and is stated at cost.

## 9 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Financial assets (available for resale)** | | |
| Investment in Macranet Limited | **288** | 288 |
| **Loans and receivables (carried at amortised cost)** | | |
| Trade and other receivables excluding prepayments | **3,644** | 4,649 |
| Cash and cash equivalents | **12,724** | 14,122 |
| **Total** | **16,656** | 19,059 |

Financial liabilities per balance sheet:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Financial liabilities at amortised cost** | | |
| Trade and other payables (excluding statutory liabilities and deferred income) | **2,065** | 2,445 |
| **Total** | **2,065** | 2,445 |

## 10 INVENTORIES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Finished goods and goods for resale | **334** | 226 |

## 11 TRADE AND OTHER RECEIVABLES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Trade receivables | **2,572** | 3,736 |
| Less: provision for impairment of trade receivables | **(11)** | (50) |
| Trade receivables – net | **2,561** | 3,686 |
| Other receivables | **28** | 17 |
| Prepayments | **787** | 521 |
| Accrued income | **1,055** | 946 |
| | **4,431** | 5,170 |

All amounts are due within one year. The carrying value of trade receivables is considered a reasonable approximation of fair value.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 11 TRADE AND OTHER RECEIVABLES CONTINUED

As at 30 June 2017, trade receivables of £1.56m (2016: £1.91m) were within credit terms and £0.99m (2016: £1.74m) were past due but not impaired. Both the fully performing and past due but not impaired balances relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these overdue trade receivables is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Not more than 1 month overdue | 216 | 960 |
| More than 1 month but not more than 3 months overdue | 516 | 560 |
| More than 3 months overdue | 259 | 224 |
| | 991 | 1,744 |

As at 30 June 2017, trade receivables of £23,000 (2016: £76,000) were impaired against which a provision of £11,000 (2016: £50,000) has been recorded. The provision was determined after taking into account the customers' payment histories. The ageing of these receivables is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Current | – | – |
| Not more than 1 month overdue | – | – |
| More than 1 month but not more than 3 months overdue | – | – |
| More than 3 months overdue | 23 | 76 |
| | 23 | 76 |

Movements on the Group provision for impairment of trade receivables are as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| At 1 July | 50 | 42 |
| Provisions for receivables impairment | 35 | 57 |
| Receivables written off during the year as uncollectible | (3) | (5) |
| Unused amounts reversed | (71) | (44) |
| | 11 | 50 |

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets or any past due balances.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above plus credit risk on cash and cash equivalents. The Group does not hold any collateral as security nor have any concentration of credit risk.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| UK pound | 4,419 | 5,126 |
| Euros | 3 | 3 |
| US dollar | 9 | 41 |
| | 4,431 | 5,170 |

## 12 CASH AND CASH EQUIVALENTS

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Cash at bank and in hand | **12,724** | 14,122 |
| **Cash and cash equivalents** | **12,724** | 14,122 |

## 13 SHARE CAPITAL AND PREMIUM

| | Number of shares thousands | Ordinary shares £000 | Share premium £000 | Total £000 |
|---|---|---|---|---|
| At 30 June 2015 | 138,902 | 6,945 | 3,015 | 9,960 |
| Proceeds from share issue | 1,635 | 82 | – | 82 |
| At 30 June 2016 | 140,537 | 7,027 | 3,015 | 10,042 |
| Proceeds from share issue | 535 | 27 | – | 27 |
| **At 30 June 2017** | **141,072** | **7,054** | **3,015** | **10,069** |

All issued shares each having a par value of 5 pence are fully paid.

The Company purchased none of its own shares during the year (2016: nil). The total number of ordinary shares held in Treasury at the end of the year was 1,869,181 (2016: 1,869,181).

## 14 SHARE-BASED PAYMENT

Share options are granted to Directors and to certain employees.

A Long Term Incentive Plan ("LTIP1") was introduced in June 2011. The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to 55 pence in the period from the date of grant until 1 January 2017; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of ten years; and once vested up to 100% of the options awarded may be exercised.

In December 2013 the Company effected another Long Term Incentive Plan ("LTIP2A"). The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to 95 pence in the 6 years following the date of grant; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of ten years; and once vested up to 100% of the options awarded may be exercised.

In April 2014 the Company effected a further Long Term Incentive Plan ("LTIP2B"). The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to £1.20 in the 5 years following the date of grant; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of seven years; and once vested up to half of the options awarded may be exercised 3 years after grant and the other half 5 years after grant.

In November 2015 the Company granted a number of Unapproved Share Options ("Unapproved"). These options are granted at an exercise price of nil pence. Options are conditional on the employee being in employment in November 2017; and, having made suitable arrangements with the Company for payment of any income tax or employee national insurance arising as a result of the award.

In October 2016 the Company granted a number of Unapproved Share Options ("Unapproved2"). These options are granted at an exercise price of nil pence. Options are conditional on the employee being in employment in October 2018; and, having made suitable arrangements with the Company for payment of any income tax or employee national insurance arising as a result of the award.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 14 SHARE-BASED PAYMENT CONTINUED

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2017 Weighted average exercise price in pence per share | 2017 Options (thousand) | 2016 Weighted average exercise price in pence per share | 2016 Options (thousand) |
|---|---|---|---|---|
| At 1 July | **5.0** | **18,107** | 5.0 | 18,570 |
| Granted | **0.0** | **42** | 4.5 | 1,511 |
| Exercised | **5.0** | **(535)** | 5.0 | (1,635) |
| Forfeited | **5.0** | **(72)** | 5.0 | (339) |
| **At 30 June** | **4.9** | **17,542** | 5.0 | 18,107 |

Out of the 17,542,193 outstanding options (2016: 18,106,992 options), 2,722,927 options (2016: 409,452) were exercisable. The weighted average exercise price for options exercisable at the year-end was 4.9 pence (2016: 5.0 pence).

Options exercised in the year resulted in 535,089 shares (2016: 1,634,674) being issued at a weighted average price of 5.0 pence each (2016: 5.0 pence). The related average weighted share price at the time of exercise was 56.75 pence per share (2016: 53 pence per share).

The weighted average fair value of the Unapproved2 options granted during the period determined using the Black-Scholes option pricing model was 47.8 pence per option. The significant inputs into the model were mid-market share price of 53.75 pence at the grant date; exercise price of nil pence; volatility of 27%; an expected option life of 2.0 years; a bid price share discount of 2.5%; and, an annual risk-free interest rate of 0.5%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the last four years.

See note 21 for the total expense recognised in the income statement for share options granted to Directors and employees (including associated national insurance).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Expiry date | | Exercise price in pence per share | Options (thousands) 2017 | 2016 |
|---|---|---|---|---|
| November 2017 | Unapproved | 0.0 | **154** | 154 |
| October 2018 | Unapproved2 | 0.0 | **42** | – |
| April 2021 | LTIP2A | 5.0 | **2,070** | 2,288 |
| April 2021 | LTIP2B | 5.0 | **12,861** | 12,861 |
| July 2021 | LTIP1 | 5.0 | **402** | 791 |
| March 2022 | LTIP2B | 5.0 | **379** | 379 |
| April 2022 | LTIP2B | 5.0 | **1,300** | 1,300 |
| July 2022 | LTIP1 | 5.0 | **334** | 334 |
| | | | **17,542** | 18,107 |

## 15 TRADE AND OTHER PAYABLES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Trade payables | **416** | 356 |
| Social security and other taxes | **443** | 431 |
| Other liabilities | **355** | 270 |
| Accrued expenses | **1,294** | 1,819 |
| | **2,508** | 2,876 |

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## 16 DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| At 1 July | **415** | 399 |
| Income statement (debit)/credit (note 24) | **(205)** | 138 |
| Tax credited/(charged) directly to equity | **1** | (122) |
| **At 30 June** | **211** | 415 |

The movement in deferred income tax assets and liabilities during the year:

| Deferred tax liabilities | Accelerated tax depreciation £000 | Acquired intangibles £000 | Other temporary differences £000 | Total £000 |
|---|---|---|---|---|
| At 30 June 2015 | 22 | 196 | 302 | 520 |
| Charged/(credited) to the income statement | 8 | (131) | (21) | (144) |
| At 30 June 2016 | 30 | 65 | 281 | 376 |
| (Credited)/charged to the income statement | (30) | (31) | (21) | (82) |
| **At 30 June 2017** | **–** | **34** | **260** | **294** |

| Deferred tax assets | Tax losses £000 | Accelerated tax depreciation £000 | Share-based payments £000 | Other temporary differences £000 | Total £000 |
|---|---|---|---|---|---|
| At 30 June 2015 | 668 | – | 226 | 25 | 919 |
| (Charged)/credited to the income statement | (38) | – | 33 | (1) | (6) |
| Charged to equity | – | – | (122) | – | (122) |
| At 30 June 2016 | 630 | – | 137 | 24 | 791 |
| (Charged)/credited to the income statement | (324) | 3 | 37 | (3) | (287) |
| Credited to equity | – | – | 1 | – | 1 |
| **At 30 June 2017** | **306** | **3** | **175** | **21** | **505** |

Deferred tax assets are recognised for tax losses available carrying forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets of £0.22m (2016: £0.26m) in respect of losses amounting to £1.15m (2016: £1.31m) that can be carried forward against future taxable income; or £1.14m (2016: £1.34m) in respect of losses that are capital in nature amounting to £6.68m (2016: £6.68m).

A deferred tax asset of £0.25m (2016: £0.13m) in relation to temporary timing differences due to share-based payment charges of £1.33m (2016: £0.66m) has not been recognised.

FINANCIALS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 17 PROVISIONS

| | Dilapidations £000 |
|---|---|
| At 30 June 2015 | 100 |
| Charged to the income statement | 18 |
| At 30 June 2016 | 118 |
| Charged to the income statement | 21 |
| Unused amounts credited to the income statement | (17) |
| **At 30 June 2017** | **122** |

Analysis of total provisions:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Non-current | **122** | 118 |
| Current | **–** | – |
| | **122** | 118 |

The dilapidations provision provides for the estimated costs of restoring the Group's leasehold properties at lease terms, to the condition in which they were originally leased. The majority of the provision is anticipated to be utilised in July 2018.

## 18 OTHER GAINS/ (LOSSES) – NET

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Net foreign exchange gains/(losses) | **8** | 21 |

## 19 EXPENSES BY NATURE

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Inventory recognised as an expense | **352** | 515 |
| Employee benefit expense (note 21) | **9,372** | 9,634 |
| Depreciation and amortisation (notes 6 and 7) | **1,379** | 1,557 |
| Operating lease payments (note 27) | **186** | 186 |
| Acquisition and non-recurring transaction expenses | **320** | – |
| Other expenses | **2,933** | 3,142 |
| **Total cost of sales and administrative expenses** | **14,542** | 15,034 |

Research and development costs of £1.48m have been expensed during the year (2016: £1.57m).

At the balance sheet date, the Company incurred professional advisor fees of £0.32m (2016: £nil) in connection with the acquisition of MatsSoft Ltd and an alternative potential acquisition which was not progressed. These costs are included in 'other expenses'.

## 20 SERVICES PROVIDED BY THE COMPANY'S AUDITOR AND ITS ASSOCIATES

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements | **21** | 16 |
| Fees payable to the Company's auditor for other services: | | |
| – the audit of the Company's subsidiaries pursuant to legislation | **24** | 26 |
| – review interim report | **7** | 8 |
| – corporate finance services | **129** | – |
| | **181** | 50 |

FINANCIALS

## 21 EMPLOYEE BENEFIT EXPENSE

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Wages and salaries | **8,226** | 8,252 |
| Less: internal development costs capitalised in the year | **(1,264)** | (1,035) |
| Social security costs | **946** | 930 |
| Share options granted to Directors and employees (see note 14) | **1,171** | 1,189 |
| Pension costs – defined contribution plans | **293** | 298 |
| | **9,372** | 9,634 |

## 22 AVERAGE NUMBER OF PEOPLE EMPLOYED

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Average number of people (including executive Directors) employed: | | |
| Sales and marketing | **53** | 51 |
| Development and operations | **98** | 86 |
| Management and administration | **18** | 19 |
| **Total average headcount** | **169** | 156 |

## 23 FINANCE INCOME AND COSTS

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Interest expense: | | |
| – bank charges | **5** | 4 |
| **Finance costs** | **5** | 4 |
| Finance income: | | |
| – interest on short-term bank deposits | **55** | 101 |
| – interest income on investment in Macranet Limited | **19** | 26 |
| **Finance income** | **74** | 127 |
| **Net finance income** | **69** | 123 |

## 24 TAX EXPENSE

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the year | **–** | – |
| Adjustments in respect of prior years | **6** | (11) |
| **Total current tax** | **6** | (11) |
| Deferred tax (note 16): | | |
| Origination and reversal of temporary differences | **205** | (138) |
| **Total deferred tax** | **205** | (138) |
| **Total tax charge/ (credit)** | **211** | (149) |

FINANCIALS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 24 TAX EXPENSE CONTINUED

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as explained below:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Profit before tax** | **1,686** | 1,737 |
| Tax expense calculated at 19.75% (2016: 20.0%) | **333** | 347 |
| Tax effects of: | | |
| – expenses not deductible for tax purposes | **130** | 313 |
| – additional deductions for R&D expenditure | **(177)** | (348) |
| – utilisation of previously unrecognised tax losses | **(26)** | (309) |
| – relief for employee share schemes | **(55)** | (152) |
| Adjustment in respect of prior years | **6** | – |
| **Total tax charge/(credit)** | **211** | (149) |

## 25 EARNINGS PER SHARE

### (A) BASIC AND DILUTED

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding those held in Treasury.

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Net earnings attributable to ordinary shareholders (£000) | **1,475** | 1,886 |
| Weighted average number of ordinary shares in issue (thousands) | **138,950** | 138,150 |
| **Basic earnings per share (pence)** | **1.06** | 1.37 |

The diluted earnings per share has been calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of shares in issue during the year, adjusted for potentially dilutive shares that are not anti-dilutive.

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Weighted average number of ordinary shares in issue (thousands) | **138,950** | 138,150 |
| Adjustments for share options | **4,904** | 5,083 |
| Weighted average number of potential ordinary shares in issue (thousands) | **143,854** | 143,233 |
| **Diluted earnings per share (pence)** | **1.03** | 1.32 |

### (B) ADJUSTED BASIC AND DILUTED

Adjusted earnings per share have been calculated to exclude the effect of non-recurring transaction costs, share-based payment charges, amortisation of acquired intangible assets and with a normalised rate of tax. The Board believes this gives a better view of on-going maintainable earnings. The table below sets out a reconciliation of the earnings used for the calculation of earnings per share to that used in the calculation of adjusted earnings per share:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Profit used for calculation of basic and diluted earnings per share** | **1,475** | 1,886 |
| Non-recurring transaction costs | **320** | – |
| Share-based payments | **1,171** | 1,189 |
| Amortisation of acquired intangible assets | **319** | 880 |
| Tax adjustment | **(479)** | (910) |
| **Profit used for calculation of adjusted basic and diluted earnings per share** | **2,806** | 3,045 |

| | 2017 pence | 2015 pence |
|---|---|---|
| **Adjusted basic earnings per share** | **2.02** | 2.20 |
| **Adjusted diluted earnings per share** | **1.95** | 2.13 |

## 26 DIVIDENDS PER SHARE

| Year to June 2017 | Paid | Pence per share | Cash flow statement £000 | Statement of changes in equity £000 | June 2017 balance sheet £000 |
|---|---|---|---|---|---|
| Final ordinary dividend for year to June 2016 | 11/1/17 | 1.10p | 1,526 | 1,526 | – |
| Final enhanced dividend for the year to June 2016 | 11/1/17 | 0.95p | 1,317 | 1,317 | – |
| Interim enhanced dividend for the year to June 2016 | 27/7/16 | 0.95p | 1,317 | 1,317 | – |
| | | | 4,160 | 4,160 | – |

| Year to June 2016 | Paid | Pence per share | Cash flow statement £000 | Statement of changes in equity £000 | June 2016 balance sheet £000 |
|---|---|---|---|---|---|
| Final ordinary dividend for year to June 2015 | 12/1/16 | 1.00p | 1,387 | 1,387 | – |
| Final enhanced dividend for year to June 2015 | 12/1/16 | 1.20p | 1,664 | 1,664 | – |
| | | | 3,051 | 3,051 | – |

An interim enhanced dividend of 1.05 pence per share, amounting to a total of £1.46 million, was paid on 27 July 2017 to shareholders whose names appeared on the register at the close of business on 14 July 2017. As the interim dividend was not approved at the balance sheet date it has not been included as a liability in these financial statements.

It is intended that this year's final ordinary dividend of 1.16 pence per share will be paid to shareholders on 12 January 2018. Netcall plc shares will trade ex-dividend from 7 December 2017 and the record date will be 8 December 2017. The estimated amount payable is £1.66 million. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 27 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between 1 and 7 years and none of them contain renewal or purchase options or escalation clauses or any restrictions regarding further leasing.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| No later than 1 year | 180 | 184 |
| Later than 1 year and no later than 5 years | 186 | 382 |
| Later than 5 years | – | – |
| **Total** | 366 | 566 |

## 28 RELATED PARTY TRANSACTIONS

Netcall plc is the Parent and ultimate controlling Company of the Group.

### (A) SALE AND PURCHASE OF GOODS AND SERVICES

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 28 RELATED PARTY TRANSACTIONS CONTINUED

### (B) KEY MANAGEMENT COMPENSATION

Key management is the Executive and Non-Executive Directors of the Company. The compensation paid or payable to key management for employee services is shown below:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Salaries and other short-term employee benefits | **693** | 918 |
| Company contributions to money purchase pension schemes | **29** | 46 |
| Share-based payments | **869** | 884 |
| **Total** | **1,591** | 1,848 |

### (C) DIRECTORS

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Aggregate emoluments | **611** | 824 |
| Company contributions to money purchase pension schemes | **29** | 46 |
| **Total** | **640** | 870 |

Details of individual Directors' emoluments are set out on page 09 of the Directors' report.

The highest paid Director was paid £302,000 (2016: £439,000). Personal pension contributions paid to the highest paid Director were £20,000 (2016: £20,000).

The Directors received dividend payments as follows:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| **Executive Directors** | | |
| Henrik Bang(1) | **141** | 104 |
| James Ormondroyd (2) | **49** | 36 |
| **Non-Executive Directors** | | |
| Michael Jackson(3) | **22** | 18 |
| Michael Neville | **17** | 11 |

(1) including dividends received by Henrik Bang's pension schemes and shares held jointly with his spouse.

(2) including dividends received by James Ormondroyd's spouse.

(3) including dividends received by shares held by Michael Jackson and Richard Jackson as trustees of the W&E Jackson Trust whose beneficiaries are the children and remoter issue of Michael Jackson.

## 29 PRINCIPAL SUBSIDIARIES

| | Country of incorporation | Nature of business | Proportion of ordinary shares held by the Parent | Proportion of ordinary shares held by the Group |
|---|---|---|---|---|
| Netcall Telecom Limited | UK | Software & services | 0% | 100% |
| Serengeti Systems Limited | UK | Dormant company | 100% | 0% |
| Telephonetics Limited | UK | Intermediate holding company | 100% | 0% |
| Datadialogs Limited | UK | Dormant company | 0% | 100% |
| Netcall Telecom Inc. | US | Dormant company | 100% | 0% |
| Netcall Telecom Europe Limited | UK | Dormant company | 100% | 0% |
| Netcall UK Limited | UK | Dormant company | 100% | 0% |
| Q-Max Systems Limited | UK | Dormant company | 100% | 0% |
| Voice Integrated Products Limited | UK | Dormant company | 0% | 100% |

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company does not differ from the proportion of ordinary shares held.

## 30 POST BALANCE SHEET EVENTS

### DIVIDEND

An interim enhanced dividend of 1.05 pence per share, amounting to a total of £1.46 million, was paid on 27 July 2017 to shareholders whose names appeared on the register at the close of business on 14 July 2017. As the interim dividend was not approved at the balance sheet date it has not been included as a liability in these financial statements.

It is intended that this year's final ordinary dividend of 1.16 pence per share will be paid to shareholders on 12 January 2018. Netcall plc shares will trade ex-dividend from 7 December 2017 and the record date will be 8 December 2017. The estimated amount payable is £1.66 million. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

FINANCIALS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 30 POST BALANCE SHEET EVENTS CONTINUED

### ACQUISITION OF MATSSOFT LIMITED

On 4 August 2017 the Company acquired 100% of the issued share capital of MatsSoft Limited ('MatsSoft'), a cloud-based low-code software provider. The acquisition is expected to add to the Group's cloud business and provide it with access to the fast growing low-code market.

At the time the financial statements were authorised for issue, the Group had not yet completed a full review of the accounting for the acquisition of MatsSoft. In particular, the fair values of the assets and liabilities acquired and the allocation of contingent payments between consideration and remuneration under IFRS3 have not been determined; and an independent valuation has not been finalised.

The provisional estimate of consideration is £16.4m comprising:

| | Dilapidations £000 |
|---|---|
| Cash consideration | 11,091 |
| Shares issued(1) | 2,310 |
| Contingent cash consideration(2) | 2,001 |
| Contingent share consideration – share price target(3) | 886 |
| Contingent share consideration – potential new contract(4) | 112 |
| **Total** | **16,400** |

(1) the Company issued 3,499,864 new ordinary shares of 5 pence each at an issue price of 66 pence per share.

(2) the contingent cash consideration arrangement requires the Company to pay the former owners of MatsSoft up to a maximum undiscounted amount of £2.31m subject to MatsSoft achieving certain financial hurdles post acquisition to 4 August 2019. The fair value of the contingent cash consideration arrangement of £2.00m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 9%.

(3) the contingent share consideration – share price target arrangement requires the Company to issue the former owners of MatsSoft up to 5,599,783 new ordinary shares of 5 pence each subject to the Company's share price reaching certain price hurdles up to £1.20 per share by 4 August 2019. The fair value of this contingent consideration of £0.89m has been determined using the Monte Carlo valuation model. The significant inputs into the model were the mid-market share price of 66.5 pence at the acquisition date, volatility of 25%, dividend yield of 1.85%, an expected option life of 4 years, and an annual risk-free interest rate of 0.203%.

(4) the contingent share consideration – potential new contract arrangement requires the Company to issue the former owners of MatsSoft up to 3,948,851 new ordinary shares of 5 pence each subject to MatsSoft achieving certain new revenues from a potential new contract post acquisition to 31 December 2019. The fair value of this contingent consideration arrangement of £0.11m has been estimated by calculating the present value of the future expected shares to be awarded. The estimates are based on a discount rate of 9% and a value per share of 66 pence.

The financial effects of this transaction have not been recognised at 30 June 2017. The operating results and assets and liabilities of the acquired company will be consolidated from 4 August 2017.

### LOAN NOTE

Immediately prior to the acquisition of MatsSoft on 4 August 2017 the Company entered into an agreement with Business Growth Fund for a £7.0m investment. The investment comprises the issue of a £7.0m Loan Note and the award of options over 4,827,586 new ordinary share of 5 pence each at a price of 58 pence per share. The Loan Note has an annual interest rate of 8.5% payable quarterly in arrears and is repayable in six instalments from 30 September 2022 to 31 March 2025.

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# PARENT COMPANY BALANCE SHEET
## AS AT 30 JUNE 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | E | **1,074** | 1,223 |
| Investments | F | **22,515** | 21,952 |
| Deferred income tax asset | I | **271** | 481 |
| **Total non-current assets** | | **23,860** | 23,656 |
| **Current assets** | | | |
| Trade and other receivables | G | **342** | 502 |
| Cash at bank and in hand | | **8,588** | 10,020 |
| **Total current assets** | | **8,930** | 10,522 |
| **Total assets** | | **32,790** | 34,178 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | J | **7,054** | 7,027 |
| Share premium | | **3,015** | 3,015 |
| Capital reserve | | **188** | 188 |
| Merger reserve | | **520** | 520 |
| Treasury shares | | **(419)** | (419) |
| Employee share schemes reserve | | **3,236** | 2,406 |
| Profit and loss account | | **18,410** | 20,767 |
| **Total equity** | | **32,004** | 33,504 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | H | **786** | 674 |
| **Total current liabilities** | | **786** | 674 |
| **Total liabilities** | | **786** | 674 |
| **Total equity and liabilities** | | **32,790** | 34,178 |

The notes on pages 49 to 53 form part of these financial statements.

The Company has taken the exemption under Section 408 of the Companies Act 2006 to not present a full Income Statement. The Company made a profit for the financial year of £1.37m (2016: £2.59m).

These financial statements on pages 47 to 53 were approved and authorised for issue by the Board on 25 September 2017 and were signed on its behalf by:

**JAMES ORMONDROYD**
Director

Netcall plc
Registered no. 01812912

FINANCIALS

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
## AS AT 30 JUNE 2017

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Capital reserve £000 | Treasury shares £000 | Employee share scheme reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2015** | **6,945** | **3,015** | **520** | **188** | **(419)** | **1,404** | **21,232** | **32,885** |
| Increase in equity reserve in relation to options issued | – | – | – | – | – | 1,002 | – | 1,002 |
| Proceeds from share issue | 82 | – | – | – | – | – | – | 82 |
| Dividends to equity holders of the Company | – | – | – | – | – | – | (3,051) | (3,051) |
| **Transactions with owners** | 82 | – | – | – | – | 1,002 | (3,051) | (1,967) |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 2,586 | 2,586 |
| **Balance at 30 June 2016** | **7,027** | **3,015** | **520** | **188** | **(419)** | **2,406** | **20,767** | **33,504** |
| Increase in equity reserve in relation to options issued | – | – | – | – | – | 1,259 | – | 1,259 |
| Reclassification following exercise of lapse of options | – | – | – | – | – | (429) | 429 | – |
| Proceeds from share issue | 27 | – | – | – | – | – | – | 27 |
| Dividends to equity holders of the Company | – | – | – | – | – | – | (4,160) | (4,160) |
| **Transactions with owners** | 27 | – | – | – | – | 830 | (3,731) | (2,874) |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 1,374 | 1,374 |
| **Balance at 30 June 2017** | **7,054** | **3,015** | **520** | **188** | **(419)** | **3,236** | **18,410** | **32,004** |

The notes on pages 49 to 53 form part of these financial statements.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## A PRINCIPAL ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related regulations. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions, where equivalent disclosures are given in the consolidated financial statements of Netcall plc.

The Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Netcall plc.

The Directors have taken advantage of the exemption under Section 408 of the Act and not presented an Income Statement of a Statement of Comprehensive Income for the Company alone.

The principal accounting policies adopted by the Company are set out below. The financial statements have been prepared under the historical cost convention, except for share-based payments that have been measured at fair value.

### (B) REVENUE

Revenue is royalties received for license of its intellectual property rights from the Company's subsidiaries. It is recognised on an "as earned" basis.

### (C) TAX

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

### (D) INTANGIBLE FIXED ASSETS

Intangible fixed assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on cost in equal annual amounts over the estimated useful lives of the assets. The rates of amortisation are as follows:

- Trademarks and licences – 5 years.
- Acquired software – 15 years.

### (E) INVESTMENTS

Investments held as fixed asset are stated at cost less provision for any permanent diminution in value. As part of the acquisition strategy of the Company, the trade and net assets of subsidiary undertakings at or shortly after acquisition may be transferred at book value to fellow subsidiaries. Where a trade is hived across to a fellow subsidiary undertaking, the cost of the investment in the original subsidiary, which then becomes a non-trading subsidiary, is added to the cost of the investment in the entity to which the trade has been hived. In order to accurately assess any potential impairment of investments, the carrying value of the investment in all companies transferred is considered together against future cash flows and net asset position of those companies which received the trade and net assets.

### (F) IMPAIRMENT OF FIXED ASSETS

The carrying values of fixed assets are reviewed for impairment when a triggering event arises that indicates assets might be impaired. Impairment is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use. Any provision for impairment is charged to the profit and loss account in the year concerned.

FINANCIALS

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

## A PRINCIPAL ACCOUNTING POLICIES CONTINUED

### (G) FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash and various items such as trade receivables and trade payables that arise directly from its operations. Finance payments associated with financial liabilities are dealt with as part of finance expenses.

*FINANCIAL ASSETS*

The Company's financial assets are loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. They arise principally through the provision of services to customers (trade receivables), but also incorporate other types of contractual monetary asset such as prepayments, which are contractually recoverable. They are initially recognised at fair value and subsequently carried at amortised cost. Unless otherwise indicated, the carrying amounts of the Company's financial assets are a reasonable approximation of their fair values.

*FINANCIAL LIABILITIES*

The Company's financial liabilities are trade payables and other financial liabilities. These liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Unless otherwise indicated, the carrying amounts of the Company's financial liabilities are a reasonable approximation of their fair values.

*SHARE CAPITAL*

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares are classified as equity instruments.

### (H) EQUITY

Equity comprises the following:

- Share capital which represents the nominal value of equity shares;
- Share premium which represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- Merger reserve includes the premium arising on the fair values ascribed to shares issued in the course of business combinations where over 90% of the issued share capital of the acquiree is acquired by the Parent Company;
- Capital reserve which represents amounts set aside following a capital reduction scheme;
- Treasury shares which represents own shares in Netcall plc purchased and retained by the Company;
- Employee share schemes reserve which represents equity-settled share-based employee remuneration until such share options are exercised; and
- Retained earnings which represent cumulative net gains and losses recognised in the consolidated income statement.

### (I) SHARE-BASED PAYMENTS

The Company operates equity-settled share based option plans. The fair value of the employee services received in exchange for the participation in the plan is recognised as an expense in the profit and loss account. The Company has accounted for options granted to the employees of subsidiary undertakings as capital contributions, which have been recharged to the intermediate company holding the investment. The corresponding credit has been recognised in the employee share schemes reserve.

The fair value of the employee service is based on the fair value of the equity instrument granted. This expense is spread over the vesting period of the instrument. The corresponding entry is credited to equity.

The liability for social security costs arising in relation to the awards is measured at each reporting date based upon the share price at the reporting date and the elapsed portion of the relevant vesting periods to the extent that it is considered that a liability will arise.

### (J) DIVIDENDS

Dividend distributions payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders approved by the Board are not included in the financial statements until paid.

## B EMPLOYEES AND DIRECTORS

The Company employed an average of 2 employees (including executive Directors) during the year (2016: 2). The only employees of the Company are the executive Directors. Directors' remuneration has been disclosed within the Directors' report on page 09.

## C SERVICES PROVIDED BY THE COMPANY'S AUDITOR AND ITS ASSOCIATES

Fees payable to the Company's auditor for the audit of the Company's accounts and for other services are set out in note 20 of the consolidated financial statements.

## D PROFIT FOR THE FINANCIAL YEAR

The Company made a profit for the financial year of £1.37m (2016: £2.59m).

## E INTANGIBLE ASSETS

| | Acquired software £000 | Trademarks and licences £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 30 June 2015 | 2,223 | 121 | 2,344 |
| Additions | – | – | – |
| At 30 June 2016 | 2,223 | 121 | 2,344 |
| Additions | – | – | – |
| **At 30 June 2017** | **2,223** | **121** | **2,344** |
| **Accumulated amortisation** | | | |
| At 30 June 2015 | 852 | 120 | 972 |
| Amortisation charge | 148 | 1 | 149 |
| At 30 June 2016 | 1,000 | 121 | 1,121 |
| Amortisation charge | 149 | – | 149 |
| **At 30 June 2017** | **1,149** | **121** | **1,270** |
| **Net book amount** | | | |
| At 30 June 2015 | 1,371 | 1 | 1,372 |
| At 30 June 2016 | 1,223 | – | 1,223 |
| **At 30 June 2017** | **1,074** | **–** | **1,074** |

## F FIXED ASSET INVESTMENTS

| | Subsidiary undertakings £000 | Investments £000 | Total £000 |
|---|---|---|---|
| **Cost & Net book amount** | | | |
| At 30 June 2015 | 21,499 | 288 | 21,787 |
| Additions – share incentive charges to subsidiaries | 165 | – | 165 |
| At 30 June 2016 | 21,664 | 288 | 21,952 |
| Additions | – | 58 | 58 |
| Additions – share incentive charges to subsidiaries | 505 | – | 505 |
| **At 30 June 2017** | **22,169** | **346** | **22,515** |

The Company's subsidiaries at the year-end are set out in note 29 of the consolidated financial statements.

All of the investments are unlisted.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
## CONTINUED

### G TRADE AND OTHER RECEIVABLES

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Amounts owed from Group undertakings | **283** | 421 |
| Other debtors | **–** | 32 |
| Prepayments | **58** | 38 |
| Accrued income | **1** | 11 |
| | **342** | 502 |

All amounts are due within one year.

### H TRADE AND OTHER PAYABLES

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Amounts owed to Group undertakings | **27** | 7 |
| Trade payables | **13** | 23 |
| Social security and other taxes | **25** | 25 |
| Other liabilities | **237** | 161 |
| Accruals | **484** | 458 |
| | **786** | 674 |

### I DEFERRED TAXATION

| | **2017 £000** | 2016 £000 |
|---|---|---|
| **Deferred tax assets comprises:** | | |
| Losses | **271** | 481 |
| | | |
| Opening balance | **481** | 493 |
| Movement in the year | **(210)** | (12) |
| **Closing balance** | **271** | 481 |

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Company has not recognised a deferred tax asset of £1.14m (2016: £1.34m) in respect of losses that are capital in nature amounting to 6.68m (2016: £6.68m) or £0.25m (2016: £0.13m) in relation to timing differences due to share-based payment charges of £1.33m (2016: £0.66m).

### J CALLED UP SHARE CAPITAL

| | **2017 thousands** | **2017 £000** | 2016 thousands | 2016 £000 |
|---|---|---|---|---|
| **Allocated, called up and fully paid** | | | | |
| Ordinary shares of 5p each | **141,072** | **7,054** | 140,537 | 7,027 |

Details of the Company's issued share capital and share options are detailed in notes 13 and 14 of the consolidated financial statements.

## K RELATED PARTY TRANSACTIONS

As permitted by FRS 101 related party transactions with wholly owned members of the Group have not been disclosed. Related party transactions regarding remuneration and dividends paid to key management (only Directors are deemed to fall into this category) of the Company have been disclosed in note 28 of the Group financial statements.

## L POST BALANCE SHEET EVENTS

Note 30 of the consolidated financial statements sets out the Company's post balance sheet events relating to dividends, the acquisition of MatsSoft Ltd and the issue of Loan Notes.

## M ULTIMATE CONTROLLING PARTY

The Directors have assessed that there is no ultimate controlling party.

# SHAREHOLDER NOTES

# A SELECTION OF OUR CUSTOMERS

Alliance Homes

Barts and The London NHS Trust

NCP

EURO TUNNEL

Thomas Cook

the warranty group

Saga

ADUR & WORTHING COUNCILS

NHS Lothian

Victory HOUSING TRUST

Nationwide

itv

Department for Education

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