Netcall

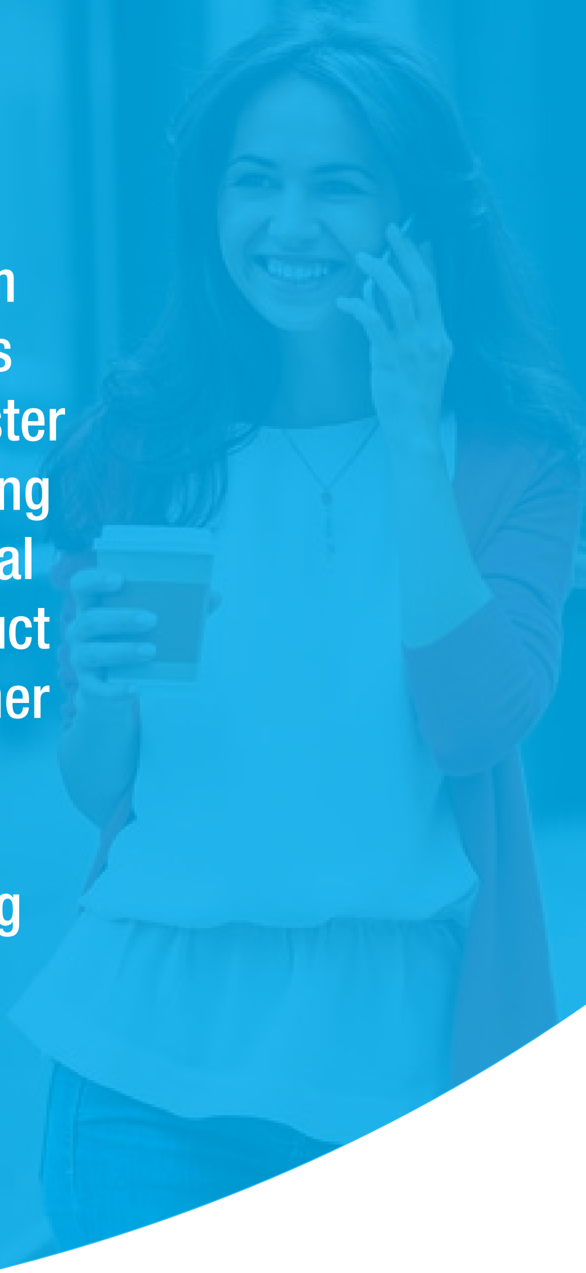
TRANSFORMING CUSTOMER ENGAGEMENT

Netcall plc

Annual Report and Accounts
for the year ended 30 June 2018

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®.

Contents

View more online: netcall.com

Our portfolio

Liberty® customer engagement platform

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

- Multichannel contact centre
- Customer experience management
- Workforce optimisation

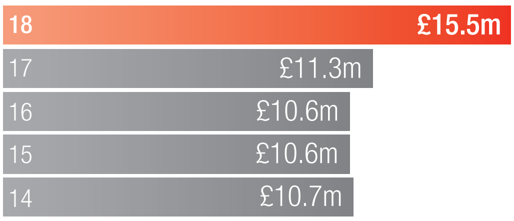
MATS® Low-code platform

Cloud-based drag & drop configuration to develop apps:

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

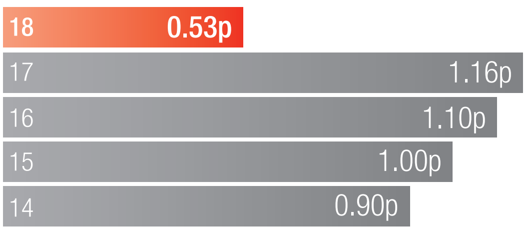
Financial and operational highlights

Recurring revenue



Adjusted EBITDA

Ordinary dividend



Financial highlights

- Revenue increased 32% to £21.9m (FY17: £16.2m)
- Strong business performance, with Low-code and Liberty cloud service revenues increasing organically by 25% and 30% respectively
- Annualised Cloud Revenues at 30 June 2018 increased by 321% to £4.80m (30 June 2017: £1.14m)
- Recurring revenue[(1)] strengthened to 71% (FY17: 70%)
- Adjusted EBITDA[(2)] increased by 21% to £5.42m (FY17: £4.49m)
- Adjusted diluted earnings per share increased by 5% to 2.04 pence (FY17: 1.95 pence)
- Profit before tax was £45,000 (FY17: £1.68m) after acquisition-related expenses
- Diluted earnings per share was 0.09p (FY17: 1.03p) after acquisition-related expenses
- Net debt of £0.74m (30 June 2017: cash £12.7m) after acquisition consideration and dividend payments.

Operational highlights

- Completed the acquisition of MatsSoft Limited ('MatsSoft'), a market-leading Low-code software provider
- Successfully completed first steps of MatsSoft integration
- MatsSoft achieved key targets including:
  - Renewal of key accounts at higher revenue levels
  - Secured cross-sales into Liberty customers
  - Won new customers, both in the UK and internationally, directly and also via new partners
- Continued investment into product innovation, resulting in the release of Liberty version 4 and MATS version 10
- Recognised as a leader by Forrester in its Low-Code Platforms for Business Developers report (Q4 2017) and included by Gartner in its Magic Quadrant for Enterprise High Productivity Application Platform-as-a-Service (2018).

(1) Revenue considered recurring in nature, derived from Cloud and Communications service and support contracts.

(2) Profit before interest, tax, depreciation and amortisation adjusted to exclude the effects of acquisition, impairment, contingent consideration and non-recurring transaction costs.

Chairman's and Chief Executive's review

> "We are delighted to report on a significant year for Netcall. The acquisition of MatsSoft, the market-leading Low-code software provider, has broadened our proposition and expanded the addressable market opportunity into a high-growth sector. The acquisition and revenue growth in the existing business has led to a strong Group performance with revenue 32% higher at £21.9m and adjusted EBITDA 21% higher at £5.42m.
>
> As we enter the new financial year, we do so with increased confidence in the growth prospects for Netcall. We believe that our Liberty Customer Engagement platform together with our Low-code platform provides an attractive proposition to help organisations transform their customer engagement and implement their digital transformation strategies. The scale of the potential opportunity can be seen in the size of the recently announced multi-million pound Low-code contract wins and the significant increase in our Annualised Cloud Revenue.
>
> We are a cash-generative business with an extensive customer base and significant growth opportunity ahead of us. Our high levels of revenue visibility and sales pipeline give the Board confidence in the enhanced prospects for the Group, for this year and beyond."
>
> **Henrik Bang**
> CEO of Netcall

Introduction

The financial year was one of significant change for Netcall. In August 2017 we completed the acquisition of MatsSoft, the market-leading Low-code software provider, which has broadened the Netcall proposition and expanded our addressable opportunity in a high-growth market.

The acquisition and growth in the existing business has led to a strong overall Group performance with revenue 32% higher at £21.9m (FY17: £16.2m) and adjusted EBITDA 21% higher at £5.42m (FY17: £4.49m). This result was underpinned by both Netcall and MatsSoft delivering significant organic Cloud services revenue growth, of 30% and 25% respectively, with MatsSoft increasing its overall revenues 19% to £5.2m compared to the same period before its acquisition.

The software markets for customer engagement and digital transformation solutions are growing rapidly. Low-code in particular is gaining traction with its ability to accelerate digital transformation by putting the power of software creation into the hands of business users. This capability combined with our Liberty customer engagement platform creates substantial synergies, allowing Netcall to more fully support businesses implementing their digital strategies.

Key targets for the Low-code business have been met during the year, including large contract renewals, new customer wins and cross-sales into the Netcall customer base. As a result, the Board plans to increase the investment in the business to capitalise on this growing market opportunity, which will be funded by existing cash flow.

Strategy

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

We achieve this by delivering intuitive software which is powerful, easy to use and highly functional. Our customer engagement capabilities are delivered via our Liberty platform and MATS, our industry-leading Low-code platform.

Key elements of our growth strategy include:

- **Expansion of our customer base.** We have a large number of customers in a wide variety of industries, mainly financial services, healthcare, government and telecommunications. We believe that the market for our Low-code platform is in its early stages and that we therefore have a significant opportunity to add additional commercial and government customers.
- **Grow through a land and expand model.** Many of our customers begin by purchasing an entry level solution with the objective of rolling out further applications and deploying the solutions more widely in their organisations to support their future customer engagement and digital transformation initiatives. This provides cross- and up-sale opportunities. In addition, the more modules a customer uses the further it becomes integrated with people, process and data, creating further value for customers.
- **Continue to innovate and enhance our platforms.** We continue to invest in research and development to strengthen our Liberty and Low-code platforms and expand the functionality available to our customers. Generally, the development of new modules results in increasing cross- and up-sale opportunities for further subscription or licence fees.

Chairman's and Chief Executive's review
Continued

case study

Nationwide Building Society

NATIONWIDE – BEING NO.1

Nationwide may be the largest Building Society in the world, but customer experience and satisfaction remains at the heart of everything they do. And for the sixth year running they top the customer satisfaction measure. The MATS Low-code platform has underpinned and supported Nationwide to transform their processes and provide seamless user experiences.

- Visibility and transparency on cases – launched 'Where's my stuff?'
- First financial organisation to provide 24-hour customer service on Twitter
- Empowers digital change – within the whole organisation
- Speed – now have the resource to build and adapt quickly
- Ease of use – easy to build and use
- IT governance and control – the business cannot disrupt core processes
- Integration – with existing IT infrastructure

- **Grow our partner base and international presence.** Partners support the acquisition and growth of the customer base by leveraging their capabilities and relationships. Our platforms enable partners to rapidly build valuable and replicable software solutions for their customers, thereby creating recurring revenues for their businesses. Many partners have an international presence, which gives us the opportunity to develop the international distribution of our portfolio.

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 driver for our 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. 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, the demand for software business applications is rising sharply, whereas the supply of resources capable of delivering these applications is growing 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, are increasingly using Low-code platforms to drive digital transformation and competitive differentiation. According to Forrester, companies report that their Low-code platforms can help them accelerate development by a multiple of five to ten times.

The markets for customer service and support software and Low-code are forecast by industry analysts to grow at more than 20% per annum over the next five years. This represents a major opportunity for Netcall which is the only UK-based company included in both the Forrester New Wave™ for Low-Code Development Platforms for Business Developers (Q4 2017) and the Gartner Magic Quadrant for Enterprise High Productivity Application Platform-as-a-Service (2018).

Strategy Execution

During the year the Group has made significant progress on its key growth strategies. Key highlights include:

The expansion of our customer base.

The acquisition of MatsSoft expanded our customer base and subsequently we have invested further in our sales force. We have won significant new customers including:

- A new three-year agreement with a UK bank delivering a Low-code cloud solution to support its business processes including commercial mortgage applications.
- A new three-year agreement with a London Borough Council for the provision of a Low-code cloud solution for a range of applications to support citizen services.
- Five-year contracts with two police forces delivering switchboard and call-back robots to improve citizen experience and deliver operational efficiencies.

We have also maintained high customer retention rates and secured significant multi-year contract renewals with our largest customers, including a four-year Low-code renewal with one of the UK's largest financial services institutions, worth a minimum of £3.7m.

Grow through a land and expand model.

We have continued to cross-sell into our Liberty customer base and made the first sales of Low-code solutions to Netcall customers.

While our platforms are agnostic we continue to invest in sales and marketing expertise for key target vertical industries such as financial services, healthcare and government, and develop template solutions tailored to those industry segments and drive customer adoption.

During the year we have developed and launched a number of tailored apps including Citizen Hub. Citizen Hub is a collection of Low-code enabled applications and modules that allow local government customers to manage their citizens and processes as well as provide self-service portals and mobile apps. We have received the first orders with the first deployment having successfully gone live.

Continue to innovate and enhance our platforms.
MATS 10 was launched in January, with a new, intuitive and slick user interface to make it even easier to create enterprise business applications. MATS 10 also includes a powerful Code Studio to let developers customise and extend functionality; confirming MATS as the Low-code platform for business and IT.

Liberty 4 has been released which introduces a new interface for agents and supervisors offering configurable real-time dashboards to provide greater visibility of contact centre performance and a unified way for agents to manage customer interactions across all channels. New modules include Contact Management, to enhance visibility of previous customer contacts, Agent Evaluation, an integrated offering to our workforce optimisation solution, and a Health Module that adds a new switchboard console and priority call handling. This is underpinned by architectural changes which, among other things, improve platform scalability.

Liberty 4 and MATS 10 include the first integrations between the two platforms, creating a Low-code enabled customer engagement suite, allowing customer service operators to seamlessly use MATS Low-code applications while operating the Liberty 4 contact centre application.

Grow our partner base and international presence.
We have signed new partners including an insurance market specialist. They are using our Low-code platform to design and market cloud subscription software solutions for their clients and have won business with leading insurance and reinsurance clients.

We have also signed new international customers, including a New York Stock Exchange listed group and a top-three Spanish mobile operator.

Increased investment into Low-code offering to capitalise on the high growth market.
Given the significant progress made by MatsSoft in the year since acquisition the Board has decided to increase the investment into its Low-code offering to capitalise on what it believes to be a significant growth opportunity. During the current financial year we intend to increase the spend on Sales & Marketing, Product Development and Service Delivery by £2.0m over the sum expended in the last financial year. The Board believes this will lead to higher growth rates and enable the Group to capture a larger share of our software markets.

The Liberty business is healthy and continues to generate high margins with strong levels of recurring revenue and cash generation, which will provide the funding of this investment.

A key measure on which the Board will assess the successful implementation of this next phase of the growth strategy will be the annualised run rate of cloud service revenues (‘Annualised Cloud Revenue’) as this represents a leading indicator of revenues. During the year such revenues have increased significantly to £4.80m with a contribution from new bookings of £1.14m, up 97% compared to last year. In the first quarter of the new financial year, Annualised Cloud Revenue has increased to £5.25m as a result of new bookings.

Financial Review

Group revenue increased 32% to £21.9m (FY17: £16.2m). Organic revenue growth was 3%. MatsSoft contributed £5.24m of revenue during the period following the acquisition in August 2017 and its organic growth rate was 19%.

The Group’s revenue comprises the following components, reflecting the movement of the business towards being primarily a provider of cloud-based software and services:

- Cloud services, being revenue subscription and usage fees of our cloud-based offerings.
- Communications services, being fees for telephony and messaging services.
- Product revenues, being predominately software licence sales with supporting hardware.
- Professional services, being consultancy, implementation and training services.
- Product support contracts, being provision of software updates, system monitoring and technical support services for our products.

case study

Liberis

LIBERIS – LEADING THE WAY IN FINTECH

Traditional banks are not geared up to allow for uneven cashflow. But that’s exactly what Liberis does. Their innovative financing model is designed to help businesses with funding that fits neatly around their cashflow.

Liberis use MATS to view the full range of communication options from live online chat, to emails and phone calls. Customers can apply online. Data and information is integrated from numerous other sources, like CRM systems, analytics, banks, and credit rating agencies. The quoting and approval process is fast and accurate. There’s complete transparency, so customers can log in and see their balance and payments, instantly. And a support team who know exactly what they’re talking about, with all the information at their fingertips.

- Customer onboarding times reduced by 50%
- Customer onboarding costs reduced by £400 per application
- Applications increased by 400%
- Business growth has led to creation of 40 Fintech jobs

> As we enter the new financial year we do so with increased confidence in the growth prospects for Netcall."
>
> Henrik Bang, CEO of Netcall

Chairman's and Chief Executive's review
Continued

Financial Review (continued)

Cloud services are a key strategic focus and have grown strongly due to the acquisition of MatsSoft and sales of our subscription-based Liberty and Low-code platforms. Revenue from Cloud services increased by 297% to £4.29m (FY17: £1.08m), comprising organic growth of 30% and a first time contribution from MatsSoft of £2.89m which grew 25% over the same period last year as an independent business.

At 30 June 2018, Annualised Cloud Revenues increased by 321% to £4.80m (FY17: £1.14m), comprising a 97% increase in new bookings to £1.14m (FY17: £0.58m) and the addition of MatsSoft's run rate at acquisition of £2.86m.

Communications services increased by 53% to £2.27m (FY17: £1.48m), comprising a first time contribution from MatsSoft of £1.12m which grew 49% over the same period last year, and 14% lower revenues in Netcall due to a partner with reduced callback requirements.

Product revenues increased 2% to £3.06m (FY17: £3.00m), principally due to higher sales of Liberty 4 on premise products to public sector organisations. As a result, product support revenues increased by 2% to £8.93m (FY17: £8.73m).

Professional service revenues increased 79% to £3.33m (FY17: £1.86m) due to higher Liberty Cloud service and product sales and a first time contribution from MatsSoft of £1.35m.

Total revenue considered recurring in nature, derived from Cloud and Communications services and support contracts, increased by 37% to £15.5m (FY17: £11.3m) which equates to 71% (FY17: 70%) of revenue.

Gross profit margin was 90% (FY17: 92%), reflecting the change in sales mix.

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition-related charges increased to £14.3m (2017: £10.3m), resulting from the enlarged Group following the acquisition of MatsSoft and an underlying increase in overhead of 3%.

Consequently, the Group adjusted EBITDA increased 21% to £5.42m (FY17: £4.49m), a margin of 25% of revenue (FY17: 28%).

Profit before tax was £45,000 (FY17: £1.69m) after taking into account acquisition-related charges and interest on borrowings taken out to fund the acquisition of MatsSoft. In addition, following that acquisition, management undertook a review of its enlarged product portfolio. The review concluded that the Group would market Citizen Hub, built on MatsSoft's Low-code platform, instead of its CXM product. As a result of this decision, an impairment charge of £0.79m relating to the carrying value of CXM internally generated software assets has been recognised in the year.

The Group recorded a tax credit of £0.09m (FY17: charge of £0.21m), benefiting from additional deductions for R&D expenditure and utilisation of previously unrecognised losses brought forward.

Adjusted diluted earnings per share increased by 5% to 2.04 pence (FY17: 1.95 pence). Reported diluted earnings per share was 0.09 pence (FY17: 1.03 pence).

Cash generated from operations before non-recurring transaction cost payments was £3.42m (FY17: £4.37m), a conversion of 63% (FY17: 97%) of adjusted EBITDA. The lower conversion was expected as a result of the consolidation of the MatsSoft business in the first half, with cash conversion of profits in the second half returning to 117%.

Spending on research and development, including capitalised software development, increased by 84% to £3.66m (FY17: £2.00m), of which capitalised software expenditure was £1.76m (FY17: £1.33m), resulting from the acquisition of MatsSoft and continuing investment in product development.

Total capital expenditure was £2.07m (FY17: £1.74m), the balance after capitalised development being £0.31m (FY17: £0.41m) relating to IT equipment and software.

On 4 August 2017, the Company acquired 100% of the issued share capital of MatsSoft for an initial cash consideration of £10.7m and the issue of 3.5m new ordinary shares of 5 pence each. The purchase agreement provided for potential further amounts of up to £2.31m cash and 9.5m new ordinary shares to be paid dependent on achieving specified performance targets achieved over various periods from completion of the acquisition. Since the acquisition date an element of the contingent cash consideration totalling £0.31m was paid. See note 7 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 agreement comprises the issue of a £7.0m Loan Note and the award of options over 4,827,586 new ordinary shares of 5 pence each at a price of 58 pence per share. See note 7 for further details.

As a result of these factors, net debt was £0.74m at 30 June 2018 (30 June 2017: net cash £12.7m).

On 27 July 2017 the final enhanced dividend of 1.05 pence per share, amounting to a total of £1.46m, was paid. On 12 January 2018, the Company paid a final ordinary dividend of 1.16 pence per share in respect of the year ended 30 June 2017, amounting to a total of £1.66m.

Dividend

In September 2017, the Board ended the enhanced dividend policy that it had been paying. The ending of this policy reflected the fact that the acquisition of MatsSoft was part-funded using the Company's excess cash resources. At the same time the Company declared a final ordinary dividend for the year ended 30 June 2017 of 1.16 pence, representing an increase of 5% on the prior year. In light of the investment that the Board now intends to make in accelerating growth and the need to balance the desire to pay a dividend to shareholders against the need to maintain a robust balance sheet, the Board intends to declare a final dividend for this financial year of 0.53 pence which represents 25% of adjusted earnings per share. It is the Board's intention to continue this pay-out ratio which it expects to lead to a progressively higher dividend in future years.

Employees

Following the successful acquisition and integration of MatsSoft, we now have over 230 employees. It is their skill and commitment which forms the basis of the continued success of Netcall and the Board would like to thank the expanded team for their ongoing dedication, commitment and contribution to the business and for embracing being part of a larger combined Group.

Outlook

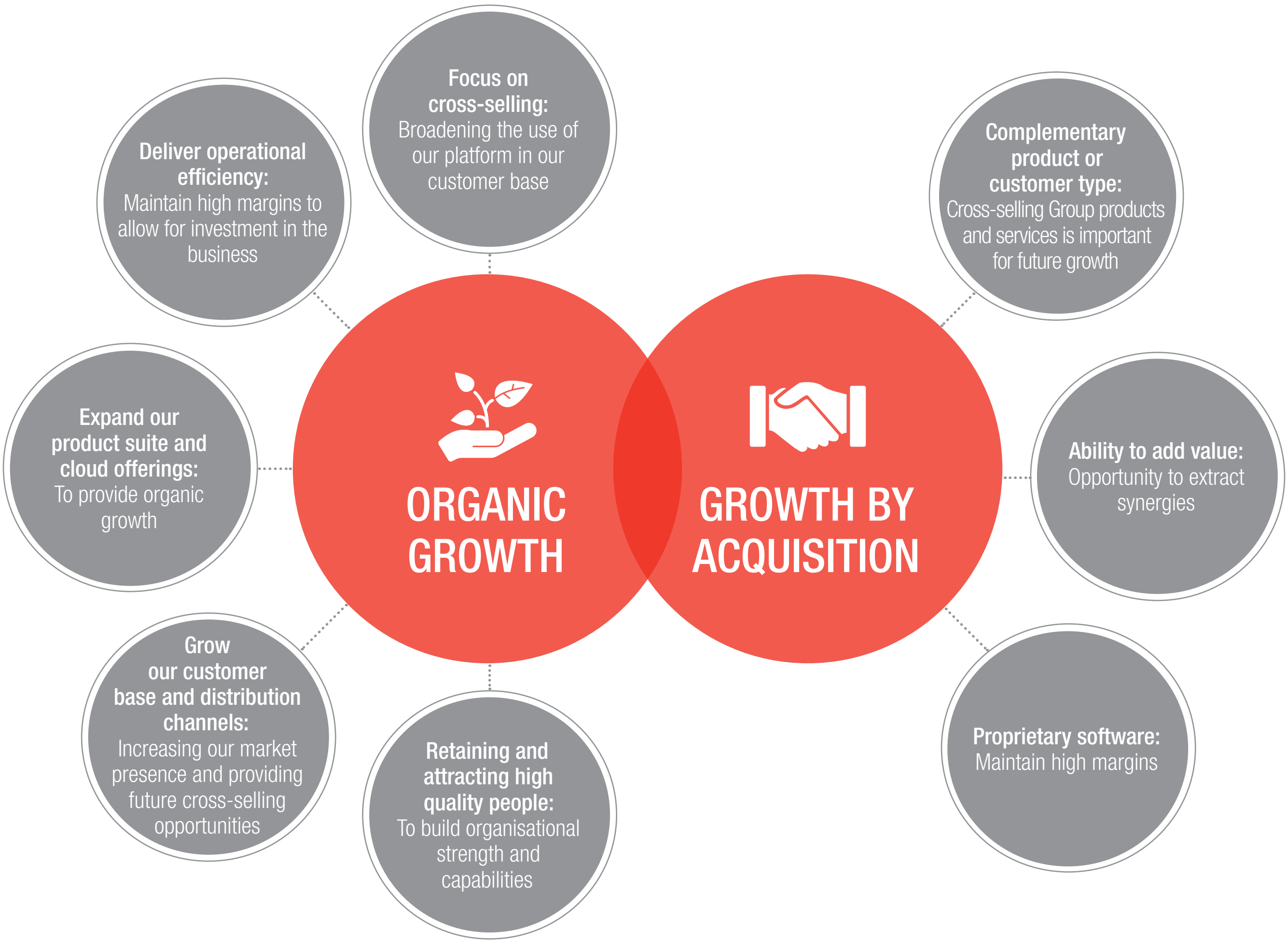
As we enter the new financial year we do so with renewed confidence in the growth prospects for Netcall. The Board believes that the Group's platforms address a significant market opportunity; helping organisations transform their customer engagement and implement their digital transformation strategies. The scale of the potential opportunity can be seen in the size of the recently announced multi-million pound Low-code contract wins and the significant increase in our Annualised Cloud Revenue.

Since the year-end Annualised Cloud Revenue has continued to grow, increasing to £5.25m as a result of new bookings, and we have a growing pipeline of opportunities across our customer base and with new prospects, both in the UK and internationally.

We are a cash-generative business with an extensive customer base and significant growth opportunity ahead of us. Our high levels of revenue visibility and record sales pipeline give the Board confidence in the enhanced prospects for the Group, for this year and beyond.

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:

	2018	2017	Change
Revenue (£m)	**21.9**	16.2	32%
Revenue recurring in nature (£m)	**15.5**	10.9	42%
Gross profit margin (%)	**90%**	92%	-2%
Adjusted EBITDA (£m)	**5.42**	4.49	21%
Cash generated from operations before payment of non-recurring transaction costs (£m)	**3.42**	4.36	-22%
Total equity (£m)	**21.7**	21.0	3%

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 • The Group's markets may fall into decline. • 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. • 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 • The Group may fail to execute its acquisition strategy successfully, 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') • 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. • 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. • The Group's product team monitors contracts, and reviews and evaluates alternate suppliers.
Product development • 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 marketplace for competitor development and maintains a significant investment in research and development.
Loss of key management and staff • 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 • 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 • 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 15 October 2018 and signed on its behalf by:

James Ormondroyd
Director
15 October 2018

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 2018.

Results and dividends

The Group's profit for the year after tax was £0.14m (2017: £1.48m).

Subject to shareholder approval at the Annual General Meeting to be held on 12 December 2018, the Board proposes paying a final ordinary dividend of 0.53 pence per share (2017: 1.16 pence per share). The estimated amount payable is £0.76m (2017: £1.66m).

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 £3.66m (2017: £2.00m), comprising £1.90m in the Consolidated Income Statement (2017: £0.69m) and £1.76m capitalised development expenditure (2017: £1.31m).

Political donations and political expenditure

In accordance with the Board's policy, no political donations were made or expenditure incurred during the year (2017: £nil).

Post balance sheet events

For details of post balance sheet events, see note 17 of the consolidated financial statements.

Directors and Directors' interests

The Directors who held office during the year ended 30 June 2018 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 14.

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 2018, performance against targets resulted in a bonus award of 15% of salary for Henrik Bang and 15% 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

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	2018 Total £000	2017 Total £000
Executive Directors					
Henrik Bang	**282**	**19**	**43**	**344**	302
James Ormondroyd	**203**	**16**	**30**	**249**	222
Non-Executive Directors					
Michael Jackson	**55**	**-**	**-**	**55**	55
Michael Neville	**32**	**-**	**-**	**32**	32
	572	**35**	**73**	**680**	611

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

	2018 £000	2017 £000
Executive Directors		
Henrik Bang	**21**	20
James Ormondroyd	**10**	9
	31	29

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 2017 and 30 June 2018
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 2018 was 73.5 pence. During the financial year the share price reached a high of 73.5 pence and a low of 40.5 pence.

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 15 to 19 of this Annual Report.

Employees
The Group encourages employee involvement in the business at all levels with the staff 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 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 22 days (2017: 23 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 12 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 9(a) 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 and at 30 June 2018 the share capital of the Company consisted of 142,979,585 issued and fully paid ordinary shares with a nominal value of 5 pence per share, quoted on AIM, together with 1,869,181 ordinary 5 pence 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 19 to the consolidated financial statements.

Auditor
Grant Thornton UK LLP, who were reappointed on 23 November 2017, have expressed their willingness to continue in office as auditor 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 12 December 2018 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, www.netcall.com.

By order of the Board

James Ormondroyd
Director
15 October 2018

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.

Directors and advisers

Chairman
Michael Jackson*^~(68) 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 (60) 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 (46) 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 five 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*^~ (64) 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 arenas.

* Denotes membership of the Audit subcommittee of the Board.

^ Denotes membership of the Remuneration subcommittee of the Board.

~ Denotes membership of the Nomination subcommittee of the Board.

Company registration number:
01812912

Registered office:
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HP2 4NW

Directors:
M Jackson
H Bang
J Ormondroyd
M Neville

Secretary:
M Greensmith

Bankers:
Lloyds Bank plc
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Nominated advisers:
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Orme & Slade Limited
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Auditor:
Grant Thornton UK LLP
Chartered Accountants and Registered Auditor
101 Cambridge Science Park
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Cambridge
CB4 0FY

Corporate governance statement

Introduction

I am pleased to present to you this year's corporate governance report. In the statement below, I set out our approach to governance, and how the Board and its committees operate.

In March 2018 the London Stock Exchange amended AIM Rule 26. This requires AIM quoted companies to:

- give details of a recognised corporate governance code it has decided to apply;
- to explain how it complies with its chosen code; and
- an explanation of why, where it departs from its chosen code.

There are two widely recognised codes: the Financial Reporting Council's ('FRC') UK Corporate Governance Code and the Quoted Companies Alliance's ('QCA') Corporate Governance Code 2018 (the 'QCA Code'). The Board chose to apply the latter as it is more suitable for small and mid-size companies.

The QCA Code includes ten governance principles and a set of disclosures. The Board has considered how we apply each principle to the extent appropriate. Below we provide an explanation of the approach taken in relation to each.

Principle 1 – Establish a strategy and business model which creates long-term value for shareholders

The purpose of the Netcall Group ('Netcall' or the 'Group') is to help organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, empowering them to get a return by driving improved customer experiences and operational efficiencies.

We achieve this by delivering intuitive software which is powerful, easy to use and highly functional. Our customer engagement capabilities are delivered via our Liberty platform and MATS, our industry-leading Low-code platform.

This is underpinned by our business model which is to provide proprietary software and software-as-a-service marketed within a flexible and viable commercial framework.

Our key strategies are to:

- integrate Liberty and MATS capabilities creating a Low-code enabled customer engagement suite;
- continue to invest in and transition to cloud business while maintaining lucrative premise-based business;
- leverage our enhanced product offering to unlock the potential from Netcall's existing customer base with up- and cross-sales;
- take advantage of the cloud and Low-code market opportunity to acquire new customers;
- enhance distribution, including international presence, via new channels including the MatsSoft App-store;
- provide a flexible and viable commercial framework, making it easy for customers to buy from us; and
- manage organisational and operational flexibility within a robust financial, control and compliance framework.

The objective is that this strategic framework will result in a growing, profitable and highly-valued business which will benefit all stakeholders.

The key challenges being addressed within the strategic framework include:

- Maintaining leading edge products in rapidly moving and changing technological markets – the Group stays in close contact with customers and leading industry analysts to assist in the creation of our technology roadmap which is developed and delivered by our qualified staff.
- Maintaining and improving high levels of quality across the business value chain – we have adopted a quality management system and are continuously increasing our use of technology to assist in improving quality. The quality management system is independently audited.
- Ensuring security of our customers' data – the safekeeping of customer data is of vital importance. Our IT services are regularly audited for security by external parties. Netcall is continuously developing its internal systems and framework to improve and reduce risks. In addition, features to reduce risks are implemented throughout our proprietary software and systems.
- Delivering continuous availability – a failure in the Group's systems could lead to an inability to deliver services. This is addressed by operating redundant systems across multiple availability zones, a comprehensive disaster recovery programme and employment of experienced staff.
- Recruiting and retaining suitable staff – the Group's ability to execute its strategy is dependent on the skills and abilities of its staff. We undertake ongoing initiatives to foster good staff engagement and ensure that remuneration packages are competitive in the market.

Principle 2 – Seek to understand and meet shareholder needs and expectations

The CEO and the CFO are the key shareholder liaison contacts. Shareholders can approach the Chairman or Non-Executive Director should they have any questions about Executive Directors.

The Company has open communications with its shareholders about its strategy and performance. We communicate with shareholders through: the Annual Report and Accounts; full-year and half-year announcements; trading updates; the Annual General Meeting (AGM); and face-to-face meetings. A range of information is also available to shareholders and the public on our website.

The AGM is the principal forum for dialogue with private shareholders. We encourage all shareholders to attend and take part. The Notice of AGM is sent to shareholders at least 21 days before the meeting. All Directors whenever possible attend the AGM and answer questions raised by shareholders. Shareholders vote on each resolution, by way of a poll. For each resolution, we announce the number of votes received for, against and withheld and publish them on our website.

The Directors seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and CFO give results presentations to analysts and institutional investors. We communicate with institutional investors via meetings, investor conferences, roadshows and informal briefings with management. The Group's nominated advisor arranges the majority of these meetings, following which they provide anonymised feedback from analysts and fund managers met. This, together with direct feedback, allows us to understand investor motivations and expectations.

Corporate governance statement
Continued

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success
The long-term success of the Group relies upon good relations with a range of different stakeholders including our staff, customers, suppliers and shareholders. We engage with these stakeholders to obtain feedback as follows:

- Staff – management's close day-to-day connection with staff combined with periodic engagement surveys and 'town hall meetings' ensure good relations with, and between, colleagues. These activities allow staff to share their views on ways in which the Group can improve products, processes and outcomes.
- Customers – delivering great customer service is a core attribute of the Group. Our success and competitive advantage are dependent upon fulfilling their requirements, particularly in relation to experience, integrity and quality of our software and services. We seek feedback on our software and services frequently including: via our account managers, product owners and executive sponsors; project delivery boards; and through a formal customer satisfaction survey programme.
- Suppliers – our key suppliers provide technology, which is incorporated into our software, and technology services, which enable the delivery of our cloud platform and IT equipment support for on-premise solutions. We operate a formal supplier process covering supplier selection, onboarding and ongoing relationship management. This includes regular updates on our suppliers' strategies and inputs into our product and services design and development.
- Shareholders – our approach to obtaining feedback is set out in Principle 2 above.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation
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 review the position. The Group is ISO9001 and ISO27001 accredited which has been independently audited.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair
The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group. They are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

The Board consists of four Directors, of which two are Executive and two are Non-Executives. The Executive Directors work full-time for Netcall. The Non-Executive Directors are expected to commit one to two days per month. The relevant experience and skills that each Director brings to the Board are set out below.

The QCA Code notes that it is usually expected that at least half of the directors on a board are independent non-executive directors. The Company does not comply with the QCA Code as neither Non-Executive is independent as:

- Michael Neville became a Director of the Company following the acquisition of Telephonetics plc, of which he was a Director. He is a Director of other companies in the Group and holds shares in the Company.
- Michael Jackson became a Director and Chairman without the intervention of a Nomination Committee. He is also a participant in the Group's Long Term Incentive Plan and a shareholder of the Company.

The Board has three committees: Audit, Remuneration and Nomination. The Board does not comply with the QCA Code's recommendation that the Chairman of the Board should not sit on any of the Board's committees. The Chairman's participation is necessary due to the limited number of Non-Executive Directors.

Notwithstanding the above, the Non-Executive Directors have sufficient industrial and public markets experience in order to constructively challenge the Executive team and help drive value for all stakeholders. There are currently no female non-executive directors. The Board remains confident both that the opportunities in the Company are not excluded or limited by any diversity issues (including gender) and that the Board nevertheless contains the necessary mix of experience, skills and other personal qualities and capabilities necessary to deliver its strategy. As part of the Board's evolution, the Company is actively seeking a further Non-Executive Director.

The Board meets regularly during the year. More meetings are arranged as necessary for specific purposes. It has a schedule of regular business, financial and operational matters. Each Board committee has a schedule of work to ensure that it addresses all areas for which it has responsibility during the year. To inform decision-making, the Chairman is responsible for ensuring that Directors receive accurate, sufficient and timely information. The Company Secretary provides minutes of each meeting. Every Director is aware of the right to seek independent advice at the Group's expense where appropriate.

Meetings held during the period under review and the attendance of Directors are set out below:

	Board Meetings		Audit Committee		Remuneration Committee		Nomination Committee	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors								
Henrik Bang	12	12	-	2(1)	-	-	-	-
James Ormondroyd	12	12	-	2(1)	-	-	-	-
Non-Executive Directors								
Michael Jackson	12	12	2	2	2	2	-	-
Michael Neville	12	12	2	2	2	2	-	-

(1) Attended by invitation as not a member of the Audit Committee.

Principle 6 – Ensure that the Directors collectively have all appropriate skills, capabilities and experience

All four members of the Board bring relevant sector experience in technology, all have at least nine years of public markets experience and two members are chartered accountants. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

Michael Jackson, Non-Executive Chairman
Term of office: Appointed as Chairman on 23 March 2009; chairman of the Nomination Committee and member of the Audit and Remuneration Committees.

Background and suitability for the role: Michael Jackson studied law at Cambridge University, and qualified as a chartered accountant with Coopers & Lybrand before spending five years in marketing for various US multinational technology companies. He founded Elderstreet Investments Limited in 1990 and is its executive chairman where for the past 28 years, he has specialised in raising finance and investing in the smaller companies quoted and unquoted sector. From 1983 until 1987 he was a director and from 1987 until 2006 was chairman of FTSE 100 company The Sage Group plc. He was also chairman of PartyGaming plc, another FTSE 100 company.

Michael Neville, Non-Executive Director
Term of office: Joined as Non-Executive Director on 30 July 2010; Chair of the Audit and Remuneration Committees and member of the Nomination Committee.

Background and suitability for the role: Michael Neville 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, technology and media arenas.

Henrik Bang, CEO
Term of office: Appointed CEO on 13 February 2004.

Background and suitability for the role: Henrik was previously 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.

James Ormondroyd, Group Finance Director
Term of office: Joined as Group Finance Director on 30 July 2010.

Background and suitability for the role: James studied physics at the University of Manchester, and qualified as a chartered accountant with PwC. He was appointed to the Netcall Board on the acquisition of Telephonetics plc, a speech recognition and voice automation software provider, on 30 July 2010 where he served as the Finance Director and Company Secretary for five years. Prior to that he was the Finance Director and Company Secretary at World Television Group Plc, a multinational media and technology business.

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. The QCA Code recommends that independent directors who have served for more than nine years should be re-elected on an annual basis. The Company does not follow this recommendation due to the current size of the Board and considers the experience of the Company's current Non-Executive Directors to be more than sufficient for the Company's needs.

Corporate governance statement
Continued

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The performance and effectiveness of the Board, its committees and individual Directors are reviewed by the Chairman and the Board on an ongoing basis. The performance and effectiveness of the Chairman is reviewed by the other Board members. Training is available should a Director request it, or if the Chairman feels it is necessary. The performance of the Board is measured by the Chairman with reference to the Company's achievement of its strategic goals. The Board does not undertake a formal evaluation of its performance, as this is constantly under review given its size.

The Board continually assesses the candidacy of Netcall staff with respect to succession planning for Executive Management and has in place a short-term plan to be instigated in the event of the loss or incapacity of either CEO or CFO. A number of senior managers are directors of subsidiary company boards and we continue to evaluate their progress.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviour

The Group's long-term growth is underpinned by a set of value-based operating principles. These have regularly been reviewed and adapted as the Group has developed and centres on customer focus, innovation, integrity, quality and teamwork. The culture of the Group is characterised by these values, and they are communicated widely including within the Group's competency framework (which sets out how we want our colleagues to work within Netcall to deliver our vision) and promoted throughout the organisation by managers in their daily work.

We monitor the culture through the use of employee and customer surveys and have in place comprehensive policies and procedures to support ethical behaviour. The Board reviews the findings of these and determines what action is required and considers its culture is positive.

The Board believes that a culture based on these core values is consistent with fulfilment of the Group's mission and execution of its strategy.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board sets the Group's vision, strategy and business model to deliver value to its shareholders. It maintains a governance structure appropriate for the Group's size, complexity and risk and ensures this structure evolves over time in line with developments of the Group.

The Board defines a series of matters reserved for its decision. It has terms of reference for its Audit, Remuneration and Nomination committees, to which it delegates certain responsibilities. The chair of each committee reports to the Board on the activities of that committee.

The Audit Committee monitors the integrity of the financial results. It reviews the need for internal audit and considers the engagement of external auditors including the approval of non-audit services. The Audit Committee comprises the Non-Executive Directors under the chairmanship of Michael Neville. It meets at least twice per year. An Audit Committee report is set out below. The terms of reference of the Audit Committee are available on the Company's website.

The Remuneration Committee sets and reviews the compensation of Executive Directors including the targets and performance frameworks for cash- and share-based awards. The Remuneration Committee comprises the Non-Executive Directors under the chairmanship of Michael Neville. It meets at least once per year. A Remuneration Committee report is set out below. The terms of reference of the Remuneration Committee are available on the Company's website.

The Nomination Committee reviews the structure, size and composition of the Board. It considers succession and identifies and nominates Board candidates. It comprises the Non-Executive Directors under the chairmanship of Michael Jackson. The Nomination Committee did not meet formally during the year; however, members of the committee discussed these matters regularly in Board meetings.

The primary responsibility of the Chairman is to lead the Board and to oversee the Group's corporate governance. He ensures that:

- the Board's agenda concentrates on key operational and financial issues with regular reviews of the Group's strategy and its implementation;
- committees are properly structured and operate with appropriate terms of reference;
- regular performance reviews of the individual Directors, the Board and its committees are undertaken;
- the Board receives accurate, timely and clear information; and
- oversees communication between the Group and its shareholders.

The CEO provides leadership and management of the Group. He:

- leads the development of objectives and strategies;
- delivers the business model within the strategy agreed by the Board;
- monitors and manages operational performance and key risks to ensure the business remains aligned with the strategy;
- leads on investor relations activities to ensure good communications with shareholders and financial institutions; and
- ensures that the Board is aware of the views and opinions of employees on relevant matters.

The Non-Executive Directors contribute independent thinking and judgement through the application of their external experience and knowledge. They scrutinise the performance of management and provide constructive challenge to the Executive Directors. They ensure that the Group is operating within the governance and risk framework approved by the Board.

The Company Secretary ensures that clear and timely information flows to the Board and its committees. He supports the Board on matters of corporate governance and risk.

The matters reserved for the Board are:

- setting long-term objectives and commercial strategy;
- approving annual operating and capital expenditure budgets;
- changing the share capital or corporate structure of the Group;
- approving half-year and full-year results and reports;
- approving dividend policy and the declaration of dividends;
- approving major investments, disposals, capital projects or contracts;
- approving resolutions and associated documents to be put to general meetings of shareholders;
- approving changes to the Board structure.

As part of the Board's evolution, the addition of a further Non-Executive Director is in progress.

Audit Committee Report

During the year, the Audit Committee has continued to focus on the effectiveness of the controls throughout the Group. The committee met twice, and the external auditor and the CEO and CFO were invited to attend these meetings. Consideration was given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in both the annual and interim reports. The committee reviewed the independence and performance of the external auditor.

Remuneration Committee Report

During the period under review the Remuneration Committee:

- undertook an annual review of the Executive Directors' remuneration packages and ensured that individual compensation levels, and total Board compensation, were comparable with those of other AIM-listed companies;
- considered and set the financial and individual performance targets, in light of the strategic framework, for the Executive Directors' annual bonus plans; and
- reviewed the granting of unapproved options to key staff with the objective of motivating and retaining them over the mid to long term, designed to incentivise delivery of the Group's growth objectives.

Principle 10 - Communicate how the Company is governed and is performing by maintaining dialogue with shareholders and other relevant stakeholders

This corporate governance report is available on the Netcall website. The Board will review and update it annually. Copies of the Annual Report and Accounts, AGM Notices, outcomes of AGM votes and other governance materials are also available on the Netcall website.

Michael Jackson
Chairman

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 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of 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 Disclosures 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 2018 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 the 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 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £215,000, which represents 4% of the Company's draft adjusted earnings before interest, tax, depreciation and amortisation ('adjusted EBITDA') presented for audit;
- We performed full scope audit procedures for Netcall plc, Telephonetics Limited, Netcall Telecom Limited and MatsSoft Limited.
- Key audit matters were identified as:
  - risk of improper recognition of revenue due to fraud; and
  - impairment of intangible assets.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter for the Group	How the matter was addressed in the audit
Risk of improper recognition of revenue due to fraud 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 due to fraud. The Group has recognised revenues of £21.9m, (2017: £16.2m) in the year, which is comprised of contract revenue, professional services revenue and communications revenue (Hosting, SMS and Cloud revenue). As the Group's revenue is material to the financial statements and comprises multiple revenue streams subject to different recognition policies, the presumed risk of improper recognition of revenue due to fraud has been identified as a significant risk, which was one of the most significant assessed risks of material misstatement. Specifically, contract revenue is a risk because the stage of completion is estimated and could be open to manipulation.	Our audit work included, but was not restricted to: • assessing whether the revenue recognition policies are in accordance with relevant accounting standards and testing their consistent application during the year; • testing of contract revenue by selecting a sample of transactions throughout the year and agreeing to signed contracts or purchase orders and confirming appropriate recognition; • stage of completion of contract revenue was assessed by testing a sample of contracts post year end to determine the actual work required to complete a project and comparing this to management's estimate of project stage of completion at the year end; • testing of professional services revenue streams by selecting a sample of transactions throughout the year and agreeing to signed agreements/purchase orders and vouching to supporting documentation where appropriate such as timesheets or delivery notes; and • testing of communications revenue streams by selecting a sample of transactions in the year and agreeing to signed agreements/ purchase orders and confirming appropriate recognition. The Group's accounting policy on revenue recognition is shown in note 21 to the financial statements and related disclosures are included in note 3. **Key observations** Our testing did not identify any material misstatements in the revenue recognised during the year in accordance with stated accounting policies.
Impairment of the carrying value of goodwill, and other intangibles At 30 June 2018, the Group had goodwill of £22.8m (2017: £7.1m) and other intangible assets of £6.2m (2017: £4.3m). In accordance with International Accounting Standard 36, 'Impairment of Assets', an annual impairment review is required to be performed by management for goodwill, or for other intangible assets when there is an indicator of impairment, to determine whether the carrying value of these assets is appropriate. The impairment review is based on identifiable assets for which future revenues and gross margins can be assigned to calculate a value in use based on a discounted cash flow model. Management assessment of the potential impairment of goodwill, investments in subsidiaries and other intangibles incorporates key assumptions over the timing and extent of future revenues, gross margin and the discount rate used. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, we therefore identified the impairment of goodwill, investments in subsidiaries and other intangibles 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: • comparing the carrying value of cash generating units to management's value in use calculations based on future income generation the technology will realise; • checking the mathematical accuracy of the impairment models; • checking appropriateness of the forecast growth rates to historical performance; • comparison of historical forecasts against actual results; • assessing appropriateness of the discount rate applied to future cash flows by applying sensitivities; and • evaluating the information included in the impairment models through our knowledge of the business and discussions with management. The Group's accounting policy on impairment of intangible assets is shown in note 21 to the financial statements and related disclosures are included in note 4. **Key observations** Management have calculated an impairment of £792,000 in respect of one of their internally generated development projects where the specific technology originally capitalised will no longer be revenue generating. We concur with the treatment adopted by management. Our testing did not identify any material misstatements or any reasons for additional impairment of intangible assets or additional factors to consider that would impact the carrying value of goodwill, investments in subsidiaries and other intangible assets recognised within the financial statements.

We did not identify any key audit matters in respect of the Parent Company.

Independent Auditor’s report to the members of Netcall plc Continued

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	£215,000, which represents 4% of the Company’s draft adjusted earnings before interest, tax, depreciation and amortisation (‘adjusted EBITDA’) presented for audit. This benchmark is considered the most appropriate because this is a key measure used by management in assessing performance of the business. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2017 using the same basis.	£101,000 which is 0.25% of the Company’s draft total assets. This benchmark is considered the most appropriate because the Parent entity does not generate its own earnings and instead acts as a holding company for the Group. Materiality for the current year is lower than the level that we determined for the year ended 30 June 2017, which was based on the Company’s draft adjusted earnings before interest, tax, depreciation and amortisation (‘adjusted EBITDA’).
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We also determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£10,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£5,050 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

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 is 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 same UK-based 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, Netcall Telecom Limited and the newly acquired MatsSoft Limited. All other entities in the Group are insignificant to the Group or dormant; and,
- Our audit approach in the current year is consistent with 2017, other than for the newly acquired MatsSoft business.

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 2 to 19, 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.

Matter 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 Directors' responsibilities statement on page 13, 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
15 October 2018

Consolidated income statement

As at 30 June 2018

	Notes	2018 £000	2017 £000
Revenue	3	**21,875**	16,151
Cost of sales		**(2,143)**	(1,333)
Gross profit		**19,732**	14,818
Administrative expenses		**(18,961)**	(13,209)
Other income	5(a)	**23**	–
Other gains/(losses) – net	5(b)	**(12)**	8
Adjusted EBITDA		**5,421**	4,487
Depreciation	8(a)	**(252)**	(212)
Impairment charge on intangible assets	4(a)	**(792)**	–
Amortisation of acquired intangible assets	8(b)	**(547)**	(319)
Amortisation of other intangible assets	8(b)	**(1,119)**	(848)
Non-recurring transaction costs	4(b)	**(464)**	(320)
Post-completion services	4(c)	**(464)**	–
Share-based payments	19	**(1,001)**	(1,171)
Operating profit		**782**	1,617
Finance income	5(f)	**29**	74
Finance costs	5(f)	**(766)**	(5)
Finance costs/(income) – net		**(737)**	69
Profit before tax		**45**	1,686
Tax credit/(charge)	6	**91**	(211)
Profit for the year		**136**	1,475
Earnings per share – pence			
Basic	20(a)	**0.10**	1.06
Diluted	20(a)	**0.09**	1.03

All activities of the Group in the current and prior period are classed as continuing. All of the profit for the period is attributable to the shareholders of Netcall plc. The notes on pages 28 to 55 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 £000	2017 £000
Profit for the year		**136**	1,475
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences arising on translation of foreign operations	9(c)	**(5)**	–
Total comprehensive income for the year		**131**	1,475

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

Consolidated balance sheet
As at 30 June 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	8(a)	**445**	473
Intangible assets	8(b)	**28,938**	11,444
Deferred tax asset	8(c)	**584**	505
Available-for-sale financial assets	7(c)	**288**	288
Total non-current assets		**30,255**	12,710
Current assets			
Inventories	8(d)	**215**	334
Other current assets	8(e)	**1,077**	787
Trade receivables	7(a)	**6,078**	2,561
Other financial assets at amortised cost	7(b)	**1,554**	1,083
Current tax asset		**–**	11
Cash and cash equivalents	7(d)	**5,779**	12,724
Total current assets		**14,703**	17,500
Total assets		**44,958**	30,210
Liabilities			
Non-current liabilities			
Other payables	7(g)	**925**	–
Borrowings	7(f)	**6,518**	–
Deferred tax liabilities	8(c)	**754**	294
Provisions	8(f)	**44**	122
Total non-current liabilities		**8,241**	416
Current liabilities			
Trade and other payables	7(e)	**5,095**	2,508
Deferred income		**9,790**	6,280
Provisions	8(f)	**128**	–
Total current liabilities		**15,013**	8,788
Total liabilities		**23,254**	9,204
Net assets		**21,704**	21,006
Equity attributable to owners of the Parent Company			
Share capital	9(a)	**7,242**	7,054
Share premium	9(a)	**3,015**	3,015
Other equity	9(b)	**4,832**	2,697
Other reserves	9(c)	**4,133**	2,854
Retained earnings		**2,482**	5,386
Total equity		**21,704**	21,006

The notes on pages 28 to 55 form part of these financial statements. These financial statements on pages 24 to 55 were approved and authorised for issue by the Board on 15 October 2018 and were signed on its behalf by:

James Ormondroyd
Director
Netcall plc, registered no. 01812912

Consolidated statement of changes in equity

As at 30 June 2018

	Notes	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2016		**7,027**	**3,015**	**2,697**	**1,881**	**7,996**	**22,616**
Increase in equity reserve in relation to options issued	9(c)	–	–	–	1,047	–	1,047
Tax debit relating to share options	6(d)	–	–	–	1	–	1
Reclassification following exercise or lapse of options	9(c)	–	–	–	(75)	75	–
Proceeds from share issue	9(a)	27	–	–	–	–	27
Dividends to equity holders of the Company	13(b)	–	–	–	–	(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	2,697	2,854	5,386	21,006
Issue of ordinary shares as consideration for acquisition in a business combination	14	175	–	2,135	–	–	2,310
Proceeds from share issue	9(a)	9	–	–	–	–	9
Increase in equity reserve in relation to options issued	9(c)	–	–	–	1,364	–	1,364
Tax debit relating to share options	6(d)	–	–	–	1	–	1
Reclassification following exercise or lapse of options	9(c)	4	–	–	(81)	77	–
Dividends to equity holders of the Company	13(b)	–	–	–	–	(3,117)	(3,117)
Transactions with owners		188	–	2,135	1,284	(3,040)	567
Profit for the year		–	–	–	–	136	136
Other comprehensive income for the year		–	–	–	(5)	–	(5)
Profit and total comprehensive income for the year		–	–	–	(5)	136	131
Balance at 30 June 2018		**7,242**	**3,015**	**4,832**	**4,133**	**2,482**	**21,704**

The notes on pages 28 to 55 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Profit before income tax		**45**	1,686
Adjustments for:			
Depreciation and amortisation		**1,918**	1,379
Impairment of intangible assets		**792**	–
Loss on disposal of intangible assets		**–**	8
Share-based payments		**1,103**	1,171
Net finance costs/(income) – net		**635**	(69)
Changes in operating assets and liabilities, net of effects from purchasing of subsidiary undertaking:			
Decrease/(increase) in inventories		**118**	(108)
(Increase)/decrease in trade receivables		**(2,575)**	1,125
Increase in other financial assets at amortised cost		**(194)**	(120)
Increase in other current assets		**(303)**	(266)
Decrease in trade and other payables		**(900)**	(403)
Increase in deferred income		**1,675**	88
Increase in provisions		**341**	4
Cash flows from operations		**2,655**	4,367
Analysed as:			
Cash generated from operations before payment of non-recurring transaction costs		**3,420**	4,367
Non-recurring transaction costs payment	4(b)	**(765)**	–
Interest received		**29**	112
Interest paid		**(478)**	(5)
Income tax refunded/(paid)		**11**	(4)
Net cash inflow from operating activities		**2,217**	4,470
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	14	**(10,974)**	–
Purchase of property, plant and equipment	8(a)	**(171)**	(121)
Payment of software development costs	8(b)	**(1,764)**	(1,331)
Purchase of other intangible assets	8(b)	**(137)**	(283)
Net cash (outflow) from investing activities		**(13,046)**	(1,735)
Cash flows from financing activities			
Proceeds from issues of ordinary shares	9(a)	**9**	27
Proceeds from borrowings	7(f)	**7,000**	–
Dividends paid to Company's shareholders	13(b)	**(3,117)**	(4,160)
Net cash inflow/(outflow) from financing activities		**3,892**	(4,133)
Net decrease in cash and cash equivalents		**(6,937)**	(1,398)
Cash and cash equivalents at beginning of the period		**12,724**	14,122
Effects of exchange rate on cash and cash equivalents		**(8)**	–
Cash and cash equivalents at end of period		**5,779**	12,724

The notes on pages 28 to 55 form part of these financial statements.

Notes to the consolidated financial statements

1 Significant changes in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of MatsSoft Limited in August 2017 (see note 14) which resulted in an increase in the recognition of goodwill and other intangible assets (see note 8(b)); transaction costs (see note 4(b)); and movements in provisions for contingent consideration (see note 8(f)).
- A £7.0m investment into the Parent Company was made by the Business Growth Fund, comprising a £7.0m Loan Note and 4,827,586 share options (see note 7(f)).
- The carrying value of intangible assets relating to the Group's CXM product was reviewed following the acquisition of MatsSoft, and as a result an impairment charge of £0.79m was recorded in the period (see note 4(a)).

For a detailed discussion about the Group's performance and financial position please refer to the Chairman's and Chief Executive's review on pages 3 to 7.

2 Segment information

2(a) Description of segment and principal activities

The Group's Board considers 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 it when making strategic decisions. Resources are reviewed on the basis of the whole business performance.

The Board primarily uses a measure of adjusted earnings before interest, taxation, depreciation and amortisation ('adjusted EBITDA') to assess the performance of the segment. It also receives information about the segment's revenue and assets on a monthly basis. Information about the segment revenue is disclosed in note 3.

2(b) Adjusted EBITDA

Adjusted EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as acquisition, contingent consideration and transaction costs and impairments when the impairment is the result of an isolated, non-recurring event. The Board believes this gives a better view of maintainable earnings levels. It also excludes the effects of equity-settled share-based payments.

Adjusted EBITDA reconciles to operating profit as follows:

	2018 £000	2017 £000
Adjusted EBITDA	**5,421**	4,487
Depreciation	**(252)**	(212)
Impairment charge on intangible assets	**(792)**	–
Amortisation of acquired intangible assets	**(547)**	(319)
Amortisation of other intangible assets	**(1,119)**	(848)
Non-recurring transaction costs	**(464)**	(320)
Post-completion services	**(464)**	–
Share-based payments	**(1,001)**	(1,171)
Operating profit	**782**	1,617

2(c) Segment assets and liabilities

Segment assets and liabilities are measured in the same way as in the financial statements. All non-current assets are located in the UK.

3 Revenue from contracts with customers

3(a) Revenue by category

A breakdown of revenue by category is as follows:

	2018 £000	2017 £000
Cloud services	**4,295**	1,082
Communication services	**2,265**	1,478
Product support contracts	**8,929**	8,730
Product	**3,058**	2,998
Services	**3,328**	1,863
	21,875	16,151

3(b) Revenue by location and major customers

The business is domiciled in the UK. The result of its revenue from external customers in the UK is £21.1m (2017: £16.0m), and the total from external customers from other countries is £0.78m (2017: £0.18m).

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

3(c) Accounting policies and significant judgements

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. Revenue is recognised as follows:

- Cloud services – revenues comprise the usage of our hosted cloud offerings. Usage fees are recognised as the services are performed;
- Communication services – revenues comprise fees for telephony and messaging services. Fees are recognised when the call or message has been delivered over the Group's network;
- Support contracts – provides customers 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;
- Product – consists of software product licence fees and hardware. Revenue is recognised when risks and rewards have passed to the customer and there is no significant ongoing obligation upon the Group; and
- 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.

Critical judgements in allocating the transaction price

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.

Critical judgements in recognising revenue

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.

4 Material profit or loss items

The Group identified a number of items which are material due to the significance of their nature and/or their amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	Notes	**2018** **£000**	2017 £000
Impairment charge on intangible assets	4(a)	**792**	–
Non-recurring transaction costs	4(b)	**464**	320
Post-completion services expense	4(c)	**464**	–
		1,720	320

4(a) Impairment charge on intangible assets

Following the acquisition of MatsSoft Limited in August 2017 (see note 14) management undertook a review of its enlarged product portfolio. The review concluded that the Group would market Citizen Hub, built on MatsSoft's Low-code platform, instead of its CXM product. As a result of this decision, the carrying value of £0.79m of internally generated software assets relating to CXM, included within intangible assets, was written down to £nil. The impairment charge is included in 'administrative expenses' in the income statement.

4(b) Non-recurring transaction costs

The Parent Company incurred professional advisor fees of £0.46m (2017: £0.32m) in connection with the acquisition of MatsSoft Limited, and in the prior period an alternative potential acquisition, which was not progressed. These costs are included in 'administrative expenses'.

4(c) Post-completion services expense

The purchase of MatsSoft Limited, in August 2017, included a contingent cash consideration arrangement (see note 14). A number of former owners of MatsSoft continue to work in the business and, in accordance with IFRS3, a proportion of the arrangement is treated as remuneration and expensed in the income statement (see note 8(f)).

Notes to the consolidated financial statements
Continued

5 Other income and expenses items

This note provides a breakdown of items included in 'other income', 'other gains/(losses)', 'finance income and costs' and an analysis of expenses by nature and employee benefit expenses.

5(a) Other income

	2018 £000	2017 £000
Rental income	**23**	–

5(b) Other gains/(losses)

	2018 £000	2017 £000
Net foreign exchange (losses)/gains	**(12)**	8

5(c) Breakdown of expenses by nature

	Notes	2018 £000	2017 £000
Inventory recognised as an expense		**362**	352
Employee benefit expenses	5(d)	**12,350**	9,372
Depreciation and amortisation	8(a), 8(b)	**1,918**	1,379
Impairment of other intangible assets		**792**	–
Operating lease payments	16(a)	**334**	186
Non-recurring transaction costs		**464**	320
Other expenses		**4,884**	2,933
Total cost of sales and administrative expenses		**21,104**	14,542

Research and development costs of £1.90m have been expensed during the year (2017: £1.48m).

The table below sets out the cost of services provided by the Company's auditor and its associates:

	2018 £000	2017 £000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	**20**	21
Fees payable to the Company's auditor for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	**33**	24
– review interim report	**7**	7
– corporate finance services	**29**	129
	89	181

5(d) Breakdown of employee benefit expenses

	Notes	2018 £000	2017 £000
Wages and salaries		**11,424**	8,226
Less: internal development costs capitalised in the year		**(1,710)**	(1,264)
Social security costs		**1,327**	946
Share options granted to Directors and employees	19(a)	**848**	1,171
Pension costs – defined contribution plans		**461**	293
		12,350	9,372

5(e) Average number of people employed during the year

	2018 £000	2017 £000
Average number of people (including Executive Directors) employed:		
Sales and marketing	**67**	53
Development and operations	**128**	98
Management and administration	**22**	18
Total average headcount	**217**	169

5(f) Finance income and costs

	2018 £000	2017 £000
Finance income		
Interest income from financial assets held for cash management purposes	**29**	55
Interest income on available-for-sale financial assets	**–**	19
Finance income	**29**	74
Finance costs		
Interest and finance charges	**558**	5
Borrowings: unwinding of discount (see note 19(b))	**102**	–
Other liabilities: unwinding of discount (see note 7(g))	**106**	–
Finance costs expensed	**766**	5
Net finance (costs)/income	**(737)**	69

6 Tax expense

This note provides an analysis of the Group's tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

6(a) Tax expense

	2018 £000	2017 £000
Current tax		
Current tax on profits for the year	**–**	–
Adjustments in respect of prior years	**–**	6
Total current tax expense	**–**	6
Deferred tax		
(Increase)/decrease in deferred tax assets	**(77)**	287
(Decrease)/increase in deferred tax liabilities	**(14)**	(82)
Total deferred tax (credit)/expense	**(91)**	205
Total tax (credit)/charge	**(91)**	211

6(b) Significant estimate – tax

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 £6.94m (2017: £2.27m). The Group has recognised a deferred tax asset of £0.36m (2017: £0.31m) which is 27% 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.

In addition, the Group has not recognised a deferred tax asset of £1.14m (2017: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2017: £6.68m) or a deferred tax asset of £0.38m (2017: £0.25m) in relation to temporary timing differences due to share-based payment charges of £1.98m (2017: £1.33m).

Notes to the consolidated financial statements
Continued

6 Tax expense continued

6(c) Reconciliation of tax expense to prima facie tax payable

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:

	2018 £000	2017 £000
Profit before tax	**45**	1,686
Tax expense calculated at 19% (2017: 19.75%)	**9**	333
Tax effects of:		
– expenses not deductible for tax purposes	**337**	130
– additional deductions for R&D expenditure	**(211)**	(177)
– utilisation of previously unrecognised tax losses	**(222)**	(26)
– tax losses arising in the period not provided as a deferred tax asset	**29**	–
– relief for employee share schemes	**(35)**	(55)
– other	**2**	–
Adjustment in respect of prior years	**–**	6
Total tax charge/(credit)	**(91)**	211

6(d) Amounts recognised directly in equity

	2018 £000	2017 £000
Aggregate current and deferred tax arising in the year and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: share-based payments	**1**	1
	1	1

7 Financial assets and liabilities

This note provides information about the Group's financial instruments including:

- an overview of all financial instruments held by the Group;
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments including judgements and estimation of uncertainty involved.

The Group holds the following financial instruments:

	2018 £000	2017 £000
Financial assets		
Available-for-sale financial assets	**288**	288
Financial assets at amortised cost		
• Trade receivables	**6,078**	2,561
• Other financial assets at amortised cost	**1,554**	1,083
• Cash and cash equivalents	**5,779**	12,724
Total financial assets	**13,699**	16,656
Financial liabilities		
Liabilities at amortised cost		
• Trade and other payables (excluding statutory liabilities)	**4,982**	2,065
• Borrowings	**6,518**	–
Total financial liabilities	**11,500**	2,065

The Group's exposure to various risks associated with the financial instruments is discussed in note 12. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset mentioned above.

7(a) Trade receivables

	2018 £000	2017 £000
Current assets		
Trade receivables	**6,179**	2,572
Less: provision for impairment of trade receivables (see note 12(c))	**(101)**	(11)
	6,078	2,561

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the purpose of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided below.

Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Impairment and risk exposure

As at 30 June 2018, trade receivables of £4.08m (2017: £1.56m) were within credit terms and £1.94m (2017: £0.99m) 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:

	2018 £000	2017 £000
Not more than one month overdue	**1,002**	216
More than one month but not more than three months overdue	**521**	516
More than three months overdue	**418**	259
	1,941	991

As at 30 June 2018, trade receivables of £158,000 (2017: £23,000) were impaired against which a provision of £101,000 (2017: £11,000) has been recorded. The provision was determined after taking into account the customers' payment histories. The ageing of these receivables is as follows:

	2018 £000	2017 £000
Current	**–**	–
Not more than one month overdue	**–**	–
More than one month but not more than three months overdue	**–**	–
More than three months overdue	**158**	23
	158	23

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

	2018 £000	2017 £000
At 1 July	**11**	50
Acquisition of MatsSoft Limited	**174**	–
Provisions for receivables impairment	**102**	35
Receivables written off during the year as uncollectible	**(138)**	(3)
Unused amounts reversed	**(48)**	(71)
	101	11

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.

Further information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in notes 12(a), 12(b) and 12(c).

Notes to the consolidated financial statements
Continued

7 Financial assets and liabilities continued

7(b) Other financial assets at amortised cost

	2018 £000	2017 £000
Current assets		
Accrued income	**1,437**	1,055
Other receivables	**117**	28
	1,554	1,083

Classification as financial assets at amortised cost
The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Fair values of other financial assets at amortised cost
Due to the short-term nature of the current other receivables and accrued income, their carrying amount is considered to be the same as their fair value.

Impairment and risk exposure
Information about the impairment of other financial assets amortised at cost can be found in note 12(c). All amounts due are within one year and are denominated in UK pounds.

7(c) Available-for-sale financial assets

	2018 £000	2017 £000
Unlisted securities		
Equity securities	**288**	288

Classification as available-for-sale financial assets
Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments, and management intend to hold them for the medium to long-term.

Fair value of available-for-sale financial assets
The equity securities held relate to an investment in privately owned Macranet Limited (trading as 'Sentiment'), a provider of enterprise class social media engagement solutions. 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. The equity securities are denominated in UK pounds.

7(d) Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	**5,779**	12,724
Deposits at call	**–**	–
Cash and cash equivalents	**5,779**	12,724

Classification as cash equivalents
Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

7(e) Trade and other payables

	2018 £000	2017 £000
Current liabilities		
Trade payables	**373**	416
Payroll tax and other statutory liabilities	**1,038**	443
Other payables	**3,684**	1,649
	5,095	2,508

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

7(f) Borrowings

	2018 Current £000	2018 Non-current £000	2018 Total £000	2017 Current £000	2017 Non-current £000	2017 Total £000
Unsecured						
Loan Notes	**–**	**6,518**	**6,518**	–	–	–
Total borrowings	**–**	**6,518**	**6,518**	–	–	–

The Company entered into a subscription agreement with Business Growth Fund ('BGF') for a £7.0m investment on 4 August 2017. 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 is unsecured, 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.

The £7.0m investment has been allocated to the fair value of the Loan Note, £6.42m, and the fair value of the share options granted, £0.58m. The fair value of the share options was determined using the Binomial valuation method. The significant inputs into the model were the mid-market share price of 66.5p at the grant date, volatility of 25%, dividend yield of 1.85%, an expected option life of five years, and an annual risk-free interest rate of 0.267%. The total expense relating to the fair value of the share options is being charged to the income statement over the five-year option life.

The Loan Notes are presented in the balance sheet as follows:

	2018 £000	2017 £000
Face value of Loan Notes issued	**7,000**	–
Share-based payment reserve – value of share option	**(584)**	–
Fair value of Loan Note issued	**6,416**	–
Charged/(credited) to the income statement:		
– Unwinding of discount	**102**	–
Non-current liability	**6,518**	–

Details of the Group's exposure to risks arising from borrowings are set out in note 12(d).

7(g) Other payables – contingent consideration

	2018 Current £000	2018 Non-current £000	2018 Total £000	2017 Current £000	2017 Non-current £000	2017 Total £000
Contingent consideration	**1,824**	**925**	**2,749**	–	–	–

The purchase of MatsSoft Limited ('MatsSoft'), in August 2017, included a contingent cash and share consideration arrangement. A number of former owners of MatsSoft continue to work in the business and, in accordance with IFRS3, a proportion of the arrangement is treated as remuneration and expensed in the income statement. See note 14 for information about determining the fair value of the liability, including its significant estimates.

Movements in contingent consideration liability during the year are set out below:

	2017 £000
At 30 June 2016 and 30 June 2017	–
Acquisition of MatsSoft	2,338
Charged to profit or loss:	
– post-completion services[(1)]	617
– unwinding of discount	106
Amounts paid during the year	(312)
At 30 June 2018	**2,749**

[(1)] Of which: £0.46m (2017: £nil) relates to contingent cash consideration and is included as 'post-completion services'; and £0.16m (2017: £nil) relates to contingent share consideration and is included as 'share-based payments', both within 'administrative expenses'.

Notes to the consolidated financial statements
Continued

8 Non-financial assets and liabilities
This note provides information about the Group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability
  – property, plant and equipment (note 8(a))
  – intangible assets (note 8(b))
  – deferred tax balances (note 8(c))
  – inventories (note 8(d))
  – other assets (note 8(e))
  – provisions (note 8(f))
- accounting policies
- information about determining the fair value of the asset and liabilities, including judgements and estimation of the uncertainty involved.

8(a) Property, plant and equipment

	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost			
At 30 June 2016	423	1,094	1,517
Additions	4	117	121
Disposals	–	(1)	(1)
At 30 June 2017	427	1,210	1,637
Exchange differences	–	–	–
Acquisition of subsidiary	21	32	53
Additions	2	169	171
Disposals	–	–	–
At 30 June 2018	**450**	**1,411**	**1,861**
Accumulated depreciation			
At 30 June 2016	278	674	952
Disposals	–	–	–
Depreciation charge	57	155	212
At 30 June 2017	335	829	1,164
Exchange differences	–	–	–
Disposals	–	–	–
Depreciation charge	70	182	252
At 30 June 2018	**405**	**1,011**	**1,416**
Net book amount			
At 30 June 2016	145	420	565
At 30 June 2017	92	381	473
At 30 June 2018	**45**	**400**	**445**

Depreciation expense of £0.25m (2017: £0.21m) has been charged in 'administrative expenses'.

Depreciation methods and useful lives
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

See note 21(n) for the other accounting policies relevant to property, plant and equipment.

8(b) Intangible assets

	Customer contracts and relationships £000	Brand names £000	Acquired software £000	Goodwill £000	Internally generated software £000	Trademarks and licences £000	Total £000
Cost							
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
Acquisition of subsidiary	12	206	2,237	15,597	–	–	18,052
Additions	–	–	–	–	1,764	137	1,901
Disposals	–	–	–	–	–	–	–
At 30 June 2018	**4,147**	**266**	**5,515**	**22,757**	**6,524**	**1,134**	**40,344**
Accumulated amortisation							
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
Impairment charge	–	–	–	–	792	–	792
Amortisation charge	112	63	372	–	989	130	1,666
Disposals	–	–	–	–	–	–	–
At 30 June 2018	**4,072**	**123**	**2,557**	**–**	**3,916**	**737**	**11,405**
Net book amount							
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
At 30 June 2018	**75**	**143**	**2,958**	**22,757**	**2,608**	**397**	**28,938**

Amortisation of £1.67m (2017: £1.17m) and impairment charges of £0.79m (2017: £nil) are included within 'administrative expenses'.

Amortisation methods and useful lives

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Brand names 18 months
- Acquired software 4–15 years
- Customer contracts and relationships 7–10 years
- Internally generated software 4 years
- Trademarks and licences 3–10 years

See note 21(o) for the other accounting policies relevant to intangible assets, and note 21(i) for the Group's policy regarding impairments.

Significant estimate – useful lives of acquired intangible assets

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.

Significant estimate – internally generated software capitalisation and impairment

During the year the Group capitalised £1.76m (2017: £1.33m) of expenses as internally generated software assets. 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 judgements 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.

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 above. 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 amounted to £2.61m (2017: £2.63m) after an impairment charge of £0.79m (see note 4(a)).

Notes to the consolidated financial statements
Continued

8 Non-financial assets and liabilities continued

Impairment tests for goodwill

Goodwill is monitored by management at the level of the operating segment identified in note 2 which is considered to be one cash-generating unit ('CGU'). Goodwill was tested for impairment on 30 June 2018 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, as is 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	22,757	3,176	25,933	39,180	13,247	51%

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.

Significant estimate – key assumptions used for value-in-use calculation

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 21(i). The recoverable amount of the CGU was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on the most recent financial plan approved by the Board for the five years ending 30 June 2023 and terminal values based on the perpetuity of cash generated with a 1.4% long-term growth rate applied. The forecast and growth assumption for the CGU is based on management's experience and understanding of the marketplace for its software. Forecasts and terminal values for both cash-generating units were discounted at a pre-tax adjusted discount rate of 10% (2017: 10%). The pre-tax discount rates are based on the Group's weighted average cost of capital.

8(c) Deferred tax balances

Deferred tax assets

The balance comprises temporary differences attributable to:

	2018 £000	2017 £000
Tax losses	360	306
Accelerated tax depreciation	–	3
Share-based payments	209	175
Other	15	21
	584	505

The movement in deferred tax assets during the year was:

Deferred tax assets	Tax losses £000	Accelerated tax depreciation £000	Share-based payments £000	Other temporary differences £000	Total £000
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
Acquisition of subsidiary (see note 14)	–	–	–	1	1
(Charged)/credited to the income statement	54	(3)	33	(7)	77
Credited to equity	–	–	1	–	1
At 30 June 2018	**360**	**–**	**209**	**15**	**584**

See note 6(b) for details of significant estimates relating to tax losses.

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2018 £000	2017 £000
Acquired intangibles	428	34
Internally generated software assets	323	260
Accelerated tax depreciation	3	–
	754	294

The movement in deferred tax liabilities during the year was:

Deferred tax liabilities	Accelerated tax depreciation £000	Acquired intangibles £000	Internally generated software assets £000	Total £000
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
Acquisition of subsidiary (see note 14)	8	466	–	474
(Credited)/charged to the income statement	(5)	(72)	63	(14)
At 30 June 2018	**3**	**428**	**323**	**754**

8(d) Inventories

	2018 £000	2017 £000
Current assets		
Goods for resale	**215**	334

The cost of individual items are determined on a first-in-first-out basis. See note 21(m) for the Group's other accounting policies for inventories.

Inventories recognised as an expense during the year amounted to £0.36m (2017: £0.35m) of which write downs of inventories to net realisable value amounted to £0.04m (2017: £0.01m). These were recognised as an expense during the year and included in 'cost of sales'.

8(e) Other current assets

	2018 £000	2017 £000
Prepayments	**1,077**	787

8(f) Provisions

	2018 Current £000	2018 Non-current £000	2018 Total £000	2017 Current £000	2017 Non-current £000	2017 Total £000
Dilapidations	**128**	**44**	**172**	–	122	122
Total provisions	**128**	**44**	**172**	–	122	122

The dilapidations provision provides for the estimated costs of restoring the Group's leasehold properties at lease termination to the condition in which they were originally leased. The majority of the provision is anticipated to be utilised in the year ending 30 June 2019.

Movements in provisions

Movements in each class of provision during the year are set out below:

	Dilapidations £000
At 30 June 2016	118
Charged/(credited) to profit or loss:	
– additional provision	21
– unused amounts reversed	(17)
At 30 June 2017	122
Acquisition of MatsSoft Limited	120
Charged to profit or loss:	
– additional provision	21
– unused amounts reversed	(73)
Amounts used during the year	(18)
At 30 June 2018	**172**

Notes to the consolidated financial statements
Continued

9 Equity

9(a) Share capital and premium

	Number of shares thousands	Ordinary shares £000	Share premium £000	Total £000
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
Issue of ordinary shares as consideration for acquisition of a business combination (note 14)	3,500	175	–	175
Employee share schemes issue (note 19)	275	13	–	13
At 30 June 2018	**144,847**	**7,242**	**3,015**	**10,257**

Share capital

Share capital represents the nominal value of equity shares and comprises ordinary shares with a par value of 5 pence. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll, each share is entitled to one vote. All issued shares are fully paid.

The Company purchased none of its own shares during the year (2017: nil). The total number of ordinary shares held in Treasury at the end of the year was 1,869,181 (2017: 1,869,181), the value of which is included within a treasury reserve (see note 9(c)).

Information relating to the share options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the year, is set out in note 19.

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

On 4 August 2017, the Company issued 3,499,864 new ordinary shares to the shareholders of MatsSoft as part of the purchase consideration for 100% of its ordinary share capital (note 14). The fair value of the shares issued amounted to £2.31m (66.0 pence per share). Pursuant to this acquisition, under Section 612 of the Companies Act 2006 the share-issue qualified for merger relief. Therefore, no share premium is accounted for in relation to shares issued in consideration of the acquisition. Instead, the difference between the nominal value of shares issued and the fair value of the shares issued, £2.14m, is credited to the merger reserve on consolidation.

9(b) Other equity

	Merger reserve £000	Capital reserve £000	Total £000
At 30 June 2016	2,509	188	2,697
Additions	–	–	–
At 30 June 2017	2,509	188	2,697
Additions (note 9(a))	2,135	–	2,135
At 30 June 2018	**4,644**	**188**	**4,832**

Merger reserve

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 Company.

Capital reserve

Capital reserve represents amounts set aside following a capital reduction scheme.

9(c) Other reserves

The table below shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description and purpose of each reserve is provided below the table.

	Treasury shares £000	Share option reserve £000	Foreign currency translation £000	Total £000
At 30 June 2016	(419)	2,300	–	1,881
Increase in equity reserve in relation to options issued	–	1,047	–	1,047
Tax credit relating to share options	–	1	–	1
Reclassification following exercise or lapse of options	–	(75)	–	(75)
At 30 June 2017	(419)	3,273	–	2,854
Increase in equity reserve in relation to options issued	–	1,364	–	1,364
Tax credit relating to share options	–	1	–	1
Reclassification following exercise or lapse of options	–	(81)	–	(81)
Exchange differences arising on translation of foreign operations	–	–	(5)	(5)
At 30 June 2018	**(419)**	**4,557**	**(5)**	**4,133**

Treasury shares

Treasury shares represents shares in Netcall plc purchased and retained by the Parent Company.

Share option reserve

Share option reserve represents equity-settled share-based payments until such share options are exercised.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 21(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

10 Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each year presented.

10(a) Net debt

	2018 £000	2017 £000
Cash and cash equivalents	**5,779**	12,724
Borrowings – fixed interest and repayable after one year	**(6,518)**	–
	(739)	12,724

10(b) Movements in net debt

	Cash and cash equivalents £000	Borrowings due after one year £000	Total £000
At 30 June 2016	14,122	–	14,122
Cash flow	(1,398)	–	(1,398)
At 30 June 2017	12,724	–	12,724
Cash flow	(6,937)	(7,000)	(13,937)
Share-based payment reserve (note 7(f))	–	584	584
Share-based payments expense (note 7(f))	–	(102)	(102)
Foreign exchange adjustments	(8)	–	(8)
At 30 June 2018	**5,779**	**(6,518)**	**(739)**

Notes to the consolidated financial statements
Continued

11 Critical estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also need to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements.

The areas involving significant judgement or estimate are:

- Recognition of revenue and allocation of transaction price – note 3(c)
- Estimation of current tax payable and current tax expense – note 6(b)
- Recognition of deferred tax assets for carried forward tax losses – note 6(b)
- Estimation of useful life of intangible assets – note 9(b)
- Estimated impairment of internally generated software assets – note 8(b)
- Estimated recoverable value of goodwill – note 8(b)
- Estimation of fair values of contingent purchase consideration in a business combination – note 14
- Estimation of fair value of share-based payments – note 19.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

12 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

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.

The principal financial instruments used by the Group are cash and bank deposits, trade receivables, other financial assets at amortised cost, trade payables that arise directly from its operations and borrowings. 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.

12(a) Market risk – foreign currency

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 2018			
Trade and other receivables	40	50	90
Cash and cash equivalents	125	19	144
Trade and other payables (excluding statutory liabilities)	21	27	48
	144	**42**	**186**
At 30 June 2017			
Trade and other receivables	9	3	12
Cash and cash equivalents	62	13	75
Trade and other payables (excluding statutory liabilities)	17	29	46
	88	**45**	**133**

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.

12(b) Market risk – interest rate

The Group's borrowings are at a fixed rate of interest. 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% (2017: 0.5%). A 1% movement in interest rates would impact upon equity and net profit by approximately £50,000 (2017: £99,000).

12(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty 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 7(a) and 7(b). 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 7(a) for more information of financial assets that are past due.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables and other financial assets at amortised cost plus credit risk on cash and cash equivalents. The Group does not hold any collateral as security nor has any concentration of credit risk.

The carrying amounts of the Group's trade receivables and other financial assets at amortised cost are denominated in the following currencies:

	2018 £000	2017 £000
UK pound	**7,522**	3,632
Euros	**50**	3
US dollar	**40**	9
	7,612	3,644

12(d) 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 repayable before 2022 and cash and cash equivalents are thought to be at acceptable levels.

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

	Less than 6 months £000	**6 to 12 months £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	**Over 5 years £000**	**Total contractual cash flows £000**	**Carrying value £000**
At 30 June 2018							
Trade and other payables[1]	2,233	–	–	–	–	2,233	2,233
Borrowings	–	–	–	1,167	5,833	7,000	6,518
	2,233	**–**	**–**	**–**	**–**	**9,233**	**8,751**
At 30 June 2017							
Trade and other payables[1]	2,065	–	–	–	–	2,065	2,065
	2,065	–	–	–	–	2,065	2,065

[1] Excluding statutory liabilities.

Notes to the consolidated financial statements
Continued

13 Capital management

13(a) 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. An analysis of net capital is set out in the table below:

	2018 £000	2017 £000
Net (debt)/funds	**(739)**	12,724
Equity attributable to owners of the Parent Company	**21,704**	21,006
Net capital	**22,443**	8,282

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.

13(b) Dividends

Year to June 2018	**Paid**	**Pence per share**	**Cash flow statement (£000)**	**Statement of changes in equity (£000)**	**June 2018 balance sheet (£000)**
Interim enhanced dividend for the year to June 2017	27/7/17	1.05p	1,461	1,461	–
Final ordinary dividend for the year to June 2017	12/1/18	1.16p	1,656	1,656	–
			3,117	**3,117**	**–**

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 the 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**	**–**

It is intended that this year's final ordinary dividend of 0.53 pence per share will be paid to shareholders on 6 February 2019. Netcall plc shares will trade ex dividend from 20 December 2018 and the record date will be 21 December 2018. The estimated amount payable is £0.76m. 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.

14 Business combination

14(a) 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.

The fair value of consideration is £15.3m comprising:

	£'000
Cash consideration	10,662
Shares issued(1)	2,310
Contingent cash consideration	1,709
Contingent share consideration – share price target	582
Contingent share consideration – potential new contract	47
	15,310

The Company issued 3,499,864 new ordinary shares of 5 pence each as part of the acquisition paid for MatsSoft. The fair value of £2.31m was based on the published share price on 3 August 2017 of 66 pence per share.

Significant estimate – fair value of contingent consideration

The purchase of MatsSoft included contingent consideration arrangements based on certain performance obligations as follows:

- The contingent cash consideration arrangement requires the Company to pay to 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. A number of the former owners of MatsSoft continue to work in the business and, in accordance with IFRS 3, a proportion of the arrangement is treated as remuneration and expensed in the income statement. The fair value of the contingent cash consideration arrangement of £1.71m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 9% and an allocation of 35% of the contingent cash consideration to post-completion service remuneration.
- The contingent share consideration – share price target arrangement requires the Company to issue to 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 four years, an annual risk-free interest rate of 0.203%, and an allocation of 35% of the contingent share consideration to post-completion service remuneration.
- 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 £0.05m 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%, a value per share of £0.66 and an allocation of 35% of the contingent share consideration to post-completion service remuneration.

Significant estimate – fair value of 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 8(b).

The assets and liabilities recognised as a result of the acquisition are as follows:

	£000
Intangible assets: proprietary software	2,237
Intangible assets: order backlog	12
Intangible assets: trade name	206
Property, plant and equipment	53
Deferred tax asset	2
Other current assets	93
Trade receivables	846
Other receivables	166
Cash and cash equivalents	–
Deferred tax liabilities	(475)
Trade and other payables	(1,380)
Deferred income	(1,927)
Provisions	(120)
Net identifiable liabilities acquired	(287)
Add: goodwill	15,597
Net assets acquired	**15,310**

The goodwill is attributable to the workforce and the value projected to be generated through future new business and the expected benefits from integrating MatsSoft into Netcall.

MatsSoft contributed £5.39m of revenue and £0.27m of profit since the acquisition date. If the acquisition had occurred at the beginning of the financial year, MatsSoft would have contributed revenue of £5.73m and a loss of £0.37m.

Notes to the consolidated financial statements
Continued

14 Business combination continued

The cash outflow as a result of the acquisition is as follows:

	£000
Cash consideration – initial payment	10,662
Less: cash acquired	–
Contingent cash consideration – payments made in the year	312
Net cash outflow – investing activities	**10,974**

15 Interests in other entities

	Country of incorporation	Nature of business	Proportion of ordinary shares held by Parent Company	Proportion of ordinary shares held by the Group
Netcall Telecom Limited	UK	Software & services	0%	100%
MatsSoft Limited	UK	Software & services	100%	0%
MatsSoft Holdings Limited	UK	Intermediate holding company	0%	100%
MatsSoft, Inc.	US	Software & services	0%	100%
Telephonetics Limited	UK	Intermediate holding company	100%	0%
Serengeti Systems Limited	UK	Dormant 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.

16 Commitments

16(a) Non-cancellable operating leases

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between one and five 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:

	2018 £000	2017 £000
No later than one year	**190**	180
Later than one year and no later than five years	**59**	186
Total	**250**	366

17 Events occurring after the year end

The Board recommended a final dividend for the year ended 30 June 2018 on 15 October 2018. See note 13(b) for details.

18 Related party transactions

Netcall plc is the parent and ultimate controlling company of the Group.

18(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.

18(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:

	2018 £000	2017 £000
Salaries and other short-term employee benefits	**778**	693
Company contributions to money purchase pension schemes	**31**	29
Share-based payments	**413**	869
Total	**1,222**	1,591

18(c) Directors

	2018 £000	2017 £000
Aggregate emoluments	**680**	611
Company contributions to money purchase pension schemes	**31**	29
Total	**711**	640

Details of individual Director's emoluments are set out on page 11 of the Directors' report.

The highest paid Director was paid £344,000 (2017: £302,000). Personal pension contributions paid to the highest paid Director were £21,000 (2017: £20,000).

The Directors received dividend payments as follows:

	2018 £000	2017 £000
Executive Directors		
Henrik Bang[1]	**104**	141
James Ormondroyd[2]	**36**	49
Non-Executive Directors		
Michael Jackson[3]	**15**	22
Michael Neville	**13**	17

(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.

Notes to the consolidated financial statements
Continued

19 Share-based payments

19(a) Employee Share Options

The Company operates a number of employee share option plans to provide long-term incentives for senior managers (including Directors) and certain employees. Below is a summary of current plans:

- A Long Term Incentive Plan ('LTIP') 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 ('LTIP2'). 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 six 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 ('LTIP3'). 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 five 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 three years after grant and the other half five years after grant.
- In November 2015 and October 2016 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 two years from grant; 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 August 2017 the Company granted a number of Unapproved Share Options ('Unapproved 2'). These options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including achievement of the MatsSoft contingent consideration targets (see note 14); the employee being in employment at exercise 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. The options have a contractual option term of four years; and once vested, up to 100% of the options awarded may be exercised.
- In November 2017 the Company granted a number of Unapproved Share Options ('Unapproved 3'). These options are granted at an exercise price of nil pence. Options are conditional on the employee being in employment three years from grant; 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.

Options are granted under the plans for no consideration and carry no dividend or voting rights.

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

	2018 Weighted average exercise price in pence per share	**2018 Options (thousand)**	2017 Weighted average exercise price in pence per share	2017 Options (thousand)
At 1 July	**4.9**	**17,542**	5.0	18,107
Granted	**4.2**	**1,604**	0.0	42
Exercised	**3.4**	**(275)**	5.0	(535)
Forfeited	**5.0**	**(55)**	5.0	(72)
At 30 June	**4.9**	**18,816**	4.9	17,542

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) 2018**	**Options (thousands) 2017**
November 2017	Unapproved	0.0	**66**	154
October 2018	Unapproved	0.0	**42**	42
November 2020	Unapproved 3	0.0	**251**	–
April 2021	LTIP2	5.0	**2,006**	2,070
April 2021	LTIP3	5.0	**12,861**	12,861
August 2021	Unapproved 2	5.0	**1,292**	–
July 2021	LTIP1	5.0	**292**	402
March 2022	LTIP3	5.0	**379**	379
April 2022	LTIP3	5.0	**1,293**	1,300
July 2022	LTIP1	5.0	**334**	334
		4.9	**18,816**	17,542

Out of the 18,816,539 outstanding options (2017: 17,542,193 options), 3,130,960 options (2017: 2,722,927) were exercisable. The weighted average exercise price for options exercisable at the year end was 4.9 pence (2017: 4.9 pence).

Options exercised in the year resulted in 275,156 shares (2017: 535,089) being issued at a weighted average price of 3.4 pence each (2017: 5.0 pence). The related average weighted share price at the time of exercise was 58.88 pence per share (2017: 56.75 pence per share).

See note 19(c) for the total expense recognised in the income statement for share options granted to Directors and employees (including associated national insurance).

Significant estimate – fair value of options granted

The weighted average fair value of the Unapproved 2 options granted during the period were determined using the Monte Carlo 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 four years, an annual risk-free interest rate of 0.203% and the probability of achieving certain non-market performance conditions.

The weighted average fair value of the Unapproved 3 options granted during the period, determined using the Black-Scholes opting pricing model, was 37.6 pence per option. The significant inputs into the model were mid-market share price of 47.0 pence at the grant date; exercise price of nil pence; volatility of 27%; an expected option life of three years; a bid price share discount of 2.5%; and an annual risk-free interest rate of 0.9%. 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.

19(b) Other share option agreements

The Company entered into a subscription agreement with Business Growth Fund ('BGF') for an investment on 4 August 2017. It included an award of options over 4,827,586 new ordinary shares of 5 pence each at a price of 58 pence per share. The option may be exercised at any time up to 30 September 2024 unless the Company shall have redeemed 50% or more of the Loan Notes prior to 30 June 2022, in which case the option shall end on 30 September 2022.

Significant estimate – fair value of other share option agreements granted

The fair value of the share options granted determined using the Binomial valuation method was £0.58m. The significant inputs into the model were the mid-market share price of 66.5 pence at the grant date, volatility of 25%, dividend yield of 1.85%, an expected option life of five years, and an annual risk-free interest rate of 0.267%. The total expense relating to the fair value of the share options is being charged to the income statement over the five-year option life. The expense is included within 'Finance costs' in the income statement.

19(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Notes	2018 £000	2017 £000
Employee share options	19(a)	**848**	1,171
Post-completion services	8(f)	**153**	–
		1,001	1,171

20 Earnings per share

20(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.

	2018	2017
Net earnings attributable to ordinary shareholders (£000)	**136**	1,475
Weighted average number of ordinary shares in issue (thousands)	**142,460**	138,950
Basic earnings per share (pence)	**0.10**	1.06

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.

	2018	2017
Weighted average number of ordinary shares in issue (thousands)	**142,460**	138,950
Adjustments for share options	**4,901**	4,904
Weighted average number of potential ordinary shares in issue (thousands)	**147,361**	143,854
Diluted earnings per share (pence)	**0.09**	1.03

Notes to the consolidated financial statements
Continued

20 Earnings per share continued

20(b) Adjusted basic and diluted

Adjusted earnings per share have been calculated to exclude the effect of acquisition, contingent consideration and reorganisation 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 ongoing 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:

	2018 £000	2017 £000
Profit used for calculation of basic and diluted earnings per share	**136**	1,475
Non-recurring transaction costs	**464**	320
Share-based payments	**1,001**	1,171
Post completion services	**464**	–
Amortisation of acquired intangible assets	**547**	319
Impairment charge on intangible fixed assets	**792**	–
Unwinding of discount – contingent consideration and borrowings	**208**	–
Tax adjustment	**(613)**	(479)
Profit used for calculation of adjusted basic and diluted earnings per share	**2,999**	2,806

	2018 £000	2017 £000
Adjusted basic earnings per share	**2.11**	2.02
Adjusted diluted earnings per share	**2.04**	1.95

21 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Netcall plc and its subsidiaries.

21(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'), and interpretations issued by the IFRS Interpretations Committee ('IFRIC') and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities are measured at fair value.

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 continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

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 2017.

Certain new standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been adopted early. The Group's assessment of the impact of these new standards and interpretations is set out below.

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 9 'Financial Instruments' is effective for the year beginning 1 July 2018. IFRS 9 replaces IAS 39, the previous Standard dealing with the recognition and measurement of financial instruments. The classification of financial assets as 'available-for-sale' will no longer exist under IFRS 9. A detailed review of the effect of IFRS 9 has not yet been undertaken and therefore it is not practicable to provide a reasonable estimate of the impact.

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 16(a). A detailed review of the effect of these standards has not yet been undertaken and therefore it is not practicable to provide a reasonable estimate.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

21(b) Principles of consolidation and equity accounting

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations; see note 21(h) (except Netcall UK Limited; see explanation below).

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 the 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 the 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 at 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.

21(c) 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.

21(d) 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 generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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'.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Notes to the consolidated financial statements
Continued

21 Summary of significant accounting policies continued

21(e) Revenue
The accounting policies for the Group's revenue from contracts with customers are explained in note 3.

21(f) Current and deferred taxation
The tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates 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 tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also 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 tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

21(g) 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.

21(h) Business combinations
The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Goodwill written off to reserves prior to the 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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition-date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

21(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

21(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 trade receivables and other financial assets carried at amortised cost. 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.

21(k) Cash and cash equivalents

A definition of cash and cash equivalents is set out in note 7(d).

21(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairments. See note 7(a) for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

21(m) Inventories

Inventories are stated at the lower of cost and net realisable value. 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. See note 8(d) for further information.

21(n) 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.

The depreciation methods and periods used by the Group are disclosed in note 8(a).

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 21(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.

Notes to the consolidated financial statements
Continued

21 Summary of significant accounting policies continued

21(o) Intangible assets

Goodwill

Goodwill is measured as described in note 21(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 2).

Customer contracts and relationships, brand names, acquired software, trademarks and licences ('other intangible assets')

Separately acquired other intangible assets are shown at historical cost. Other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. The amortisation methods and periods used by the Group are disclosed in note 8(b).

Internally generated software 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.

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 from the point at which the asset is ready to use. The amortisation methods and periods used by the Group are disclosed in note 8(b).

21(p) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

21(q) Borrowings

Borrowings are initially recognised at fair value. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of any option agreement connected to borrowings is determined using the Binomial method and recorded in shareholders' equity; the remainder of the proceeds is allocated to borrowings.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

21(r) Provisions

Provisions for leasehold dilapidations and contingent consideration 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.

21(s) 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.

21(t) Share-based payments

The Group operates a number of 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 a liability will arise.

21(u) Equity

Equity comprises share capital, share premium, other equity, other reserves and retained earnings.

Retained earnings represents the cumulative net gains and losses recognised in the Consolidated Income Statement. See note 9 for descriptions of the other classes of equity.

21(v) 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.

Parent Company balance sheet
As at 30 June 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Intangible assets	E	**984**	1,132
Investments	F	**38,192**	22,457
Deferred income tax asset	K	**228**	271
Total non-current assets		**39,404**	23,860
Current assets			
Trade and other receivables	G	**1,193**	342
Cash at bank and in hand		**2,448**	8,588
Total current assets		**3,641**	8,930
Total assets		**43,045**	32,790
Equity and liabilities			
Equity			
Share capital	L	**7,242**	7,054
Share premium		**3,015**	3,015
Other equity	M	**2,843**	708
Other reserves	N	**4,100**	2,817
Retained earnings		**15,560**	18,410
Total equity		**32,760**	32,004
Liabilities			
Non-current liabilities			
Borrowings	H	**6,518**	–
Other payables	I	**925**	–
Total non-current liabilities		**7,443**	786
Current liabilities			
Trade and other payables	J	**2,842**	786
Total current liabilities		**2,842**	786
Total liabilities		**10,285**	786
Total equity and liabilities		**43,045**	32,790

The notes on pages 58 to 63 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 £0.19m (2017: £1.37m).

These financial statements on pages 56 to 63 were approved and authorised for issue by the Board on 15 October 2018 and were signed on its behalf by:

James Ormondroyd
Director
Netcall plc
Registered no. 01812912

Parent Company statement of changes in equity

As at 30 June 2018

	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2016	7,027	3,015	708	1,987	20,767	33,504
Increase in equity reserve in relation to options issued	–	–	–	1,259	–	1,259
Reclassification following exercise or 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	708	2,817	18,410	32,004
Issue of ordinary shares as consideration for acquisition of a business combination	175	–	2,135	–	–	2,310
Increase in equity reserve in relation to options issued	–	–	–	1,364	–	1,364
Reclassification following exercise or lapse of options	4	–	–	(81)	77	–
Proceeds from share issue	9	–	–	–	–	9
Dividends to equity holders of the Company	–	–	–	–	(3,117)	(3,117)
Transactions with owners	188	–	2,135	1,283	(3,040)	566
Profit and total comprehensive income for the year	–	–	–	–	190	190
Balance at 30 June 2018	**7,242**	**3,015**	**2,843**	**4,100**	**15,560**	**32,760**

The notes on pages 58 to 63 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 or 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.

(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 Company. The merger reserve is included in 'other equity' on the face of the balance sheet;
- capital reserve which represents amounts set aside following a capital reduction scheme. The capital reserve is included in 'other equity' on the face of the balance sheet;
- treasury shares which represent shares in Netcall plc purchased and retained by the Company. The treasury share reserve is included in 'other reserves' on the face of the balance sheet;
- share schemes reserve which represents equity-settled share-based employee remuneration and share option agreements until such share options are exercised. The share schemes reserve is included in 'other reserves' on the face of the balance sheet; 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 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 two employees (including Executive Directors) during the year (2017: two). The only employees of the Company are the Executive Directors. Directors' remuneration has been disclosed within the Directors' report on page 11.

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 5(c) of the consolidated financial statements.

D Profit for the financial year

The Company made a profit for the financial year of £0.19m (2017: £1.37m).

Notes to the Parent Company financial statements Continued

E Intangible assets

	Acquired software £000	Trademarks and licences £000	Total £000
Cost			
At 30 June 2016	2,223	121	2,344
Additions	–	58	58
At 30 June 2017	2,223	179	2,402
Additions	–	–	–
At 30 June 2018	**2,223**	**179**	**2,402**
Accumulated amortisation			
At 30 June 2016	1,000	121	1,121
Amortisation charge	149	–	149
At 30 June 2017	1,149	121	1,270
Amortisation charge	148	–	148
At 30 June 2018	**1,297**	**121**	**1,418**
Net book amount			
At 30 June 2016	1,223	–	1,223
At 30 June 2017	1,074	58	1,132
At 30 June 2018	**926**	**58**	**984**

F Fixed asset investments

	Subsidiary undertakings £000	Investments £000	Total £000
Cost and net book amount			
At 30 June 2016	21,664	288	21,952
Additions – share incentive charges to subsidiaries	505	–	505
At 30 June 2017	22,169	288	22,457
Additions – acquisition of MatsSoft Limited (see note 14)	15,310	–	15,310
Additions – share incentive charges to subsidiaries	425	–	425
At 30 June 2018	**37,904**	**288**	**38,192**

The Company's subsidiaries at the year end are set out in note 15 of the consolidated financial statements.

All of the investments are unlisted.

G Trade and other receivables

	2018 £000	2017 £000
Amounts owed from Group undertakings	**1,063**	283
Other debtors	**–**	–
Prepayments	**129**	58
Accrued income	**1**	1
	1,193	342

All amounts are due within one year.

H Borrowings

	2018 Current £000	2018 Non-current £000	2018 Total £000	2017 Current £000	2017 Non-current £000	2017 Total £000
Unsecured						
Loan Notes	–	6,518	6,518	–	–	–
Total borrowings	**–**	**6,518**	**6,518**	–	–	–

Immediately prior to the acquisition of MatsSoft, on 4 August 2017, the Company entered into a subscription agreement with Business Growth Fund ('BGF') 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 5 pence each at a price of 58 pence per share. The Loan Note is unsecured, 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.

The £7.0m investment has been allocated to the fair value of the Loan Note, £6.42m, and the fair value of the share options granted, £0.58m. The fair value of the share options was determined using the Binomial valuation method. The significant inputs into the model were the mid-market share price of 66.5 pence at the grant date, volatility of 25%, dividend yield of 1.85%, an expected option life of five years, and an annual risk-free interest rate of 0.267%. The total expense relating to the fair value of the share options is being charged to the income statement over the five-year option life. The Loan Notes are presented in the balance sheet as follows:

	2018 £000	2017 £000
Face value of notes issued	7,000	–
Share schemes reserve – value of share option	(584)	–
	6,416	–
Unwinding of discount	102	–
Non-current liability	**6,518**	–

I Other payables – contingent consideration

	2018 Current £000	2018 Non-current £000	2018 Total £000	2017 Current £000	2017 Non-current £000	2017 Total £000
Contingent consideration	1,824	925	2,749	–	–	–
	1,824	925	2,749	–	–	–

See note 14 for information about the contingent consideration liability and its estimate.

Movements during the year are set out below:

	2018 £000	2017 £000
Opening balance	–	–
Acquisition of MatsSoft Limited (see note 14)	2,338	–
Charged to profit or loss:		
– post-completion services expense	464	–
– share-based payment charge	153	–
– unwinding of discount	106	–
Amounts used during the year	(312)	–
Closing balance	**2,749**	–

Notes to the Parent Company financial statements Continued

J Trade and other payables

	2018 £000	2017 £000
Amounts owed to Group undertakings	**250**	27
Trade payables	**50**	13
Social security and other taxes	**56**	25
Other liabilities	**2,161**	237
Accruals	**325**	484
	2,842	786

K Deferred taxation

	2018 £000	2017 £000
Deferred tax assets comprises:		
Losses	**228**	271
Opening balance	**271**	481
Movement in the year	**(43)**	(210)
Closing balance	**228**	271

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 (2017: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2017: £6.68m) or £0.37m (2017: £0.25m) in relation to timing differences due to share-based payment charges of £1.96m (2017: £1.33m).

L Called up share capital

	2018 thousands	2018 £000	2017 thousands	2017 £000
Allocated, called up and fully paid				
Ordinary shares of 5 pence each	**144,847**	**7,242**	141,072	7,054

Details of the Company's issued share capital and share options are detailed in notes 9(a) and 19 of the consolidated financial statements.

M Other equity

	Merger reserve £000	Capital reserve £000	Total £000
At 30 June 2016	520	188	708
Additions	–	–	–
At 30 June 2017	520	188	708
Additions	2,135	–	2,135
At 30 June 2018	**2,655**	**188**	**2,843**

On 4 August 2017 the Company issued 3,499,864 new ordinary shares to the shareholders of MatsSoft Limited as part of the purchase consideration for 100% of its ordinary share capital (note 14). The fair value of the shares issued amounted to £2.31m (66.0 pence per share). Pursuant to this acquisition, under Section 612 of the Companies Act 2006 the share-issue qualified for merger relief. Therefore, no share premium is accounted for in relation to shares issued in consideration of the acquisition. Instead, the difference between the nominal value of shares issued and the fair value of the shares issued, £2.14m, is credited to the merger reserve on consolidation.

N Other reserves

	Treasury shares £000	Share options reserve £000	Total £000
At 30 June 2016	(419)	2,406	1,987
Increase in equity reserve in relation to options issued	–	1,259	1,259
Reclassification following exercise or lapse of options	–	(429)	(429)
At 30 June 2017	(419)	3,236	2,817
Increase in equity reserve in relation to options issued	–	1,364	1,364
Reclassification following exercise or lapse of options	–	(81)	(81)
At 30 June 2018	**(419)**	**4,519**	**4,100**

O 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 of the Company (only Directors are deemed to fall into this category) have been disclosed in note 18 of the Group financial statements.

P Post balance sheet events

Note 17 of the consolidated financial statements sets out the Company's post balance sheet event relating to dividends.

Q Ultimate controlling party

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

Shareholder Notes

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