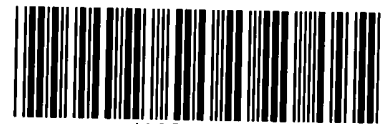


# Eckoh<sup>•</sup>

ANNUAL REPORT  
2017

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## ECKOH PLC ANNUAL REPORT 2017

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# ECKOH PLC STRATEGIC REPORT

## HIGHLIGHTS OF THE YEAR

Eckoh plc (AIM: ECK), the global provider of secure payment products and customer contact solutions, is pleased to announce its final results for the year ended 31 March 2017.

### Financial Highlights:

- Revenue increased by 30% to £29.1m (FY16: £22.5m)
  - US operations grew by 145% to £9.7m (FY16: £4.0m), representing 33% of Group revenues
  - Group recurring revenue<sup>1</sup> strengthened to 76%, (FY16: 70%)
- Gross profit increased 21% to £20.3m (FY16: £16.8m)
- Adjusted EBITDA<sup>2</sup> increased to £5.8m (FY16: £5.4m)
- Adjusted operating profit<sup>3</sup> rose to £4.3m (FY16: £4.1m) despite a £0.7m loss made by a discontinued division of acquired subsidiary, Product Support Solutions Inc. ("PSS"), and transition to a recurring revenue model in the US
- Profit from operating activities of £1.8m (FY16: £2.5m)
- Final dividend proposed of 0.48p per share (FY16: 0.45p)

### Operational Highlights:

- Secured nine new US payment contracts with a combined value of \$8.3m (FY16: \$1.6m)
- Largest ever US support contract won with a contract value of \$5.0m
- Completed the acquisition of Klick2Contact EU Limited ("K2C") in July 2016 to strengthen Eckoh's Omni-channel service offering
- Fourth contract win with Capita to provide services to a leading UK mobile virtual network operator
- Strengthened existing UK client base from 66 to 87<sup>4</sup>, and client retention remains almost 100%

### Current Trading:

- Strong start to the new financial year with monthly recurring revenue of nearly £2m
- Post period end, won new UK contract through Teleperformance to provide both Eckoh and K2C services to Her Majesty's Passport Office
- Five year contract win with Carters Inc for Secure Payments

1. Recurring revenue is defined as on-going revenue on a transactional basis, rather than revenue derived from the set-up and delivery of a new service or the delivery of hardware.
2. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is stated after excluding expenses relating to share option schemes, non-recurring items and expenses relating to acquisitions
3. Adjusted operating profit is stated after excluding expenses relating to share option schemes, non-recurring items and expenses relating to acquisitions and is shown on the face of the Consolidated statement of Profit and Loss on page 25.
4. Clients who generate more than £25k,000 of revenue per annum.

## CHAIRMAN'S STATEMENT

I am pleased to be able to report on the considerable progress made by Eckoh over the past twelve months.

In the early months of the new financial year the integration of the Product Support Solutions Inc ("PSS") business, that was acquired in November 2015, was completed in the US. As part of this integration process it was decided that the Company should focus on long term contracts with high levels of predictable recurring revenues as we have seen in the UK for several years now. The direct result of this decision was the closure of the Professional Services division in the US and the move to customer contracts in the US following a Software as a Service ("SaaS") model. While this decision caused a short term negative financial impact in the first half of the financial year, the benefits came through in a very strong second half of the financial year.

The US team were successful in focussing on larger Secure Payment opportunities and saw the overall contract value secured in the period increase to \$8.3m (FY16: \$1.6m). The average contract value increased to \$918k (FY16: \$173k). With the new pricing model requiring much lower levels of initial investment, we continue to see much larger opportunities in the US sales pipeline than seen in prior years. It has been particularly encouraging to see the sales team acquired through the PSS acquisition winning large contracts for traditional Eckoh products and for the implementation of these services to be supported by the formerly PSS technical team. At the end of the financial year almost one third of group revenues have come from the US. We fully expect this proportion to increase quickly as the contract value secured in the current year begins to flow in future years.

In the UK, we remain confident that revenues will continue to increase as they have in recent years. In July 2016 we were able to announce the acquisition of Klick2Contact (EU) Limited ("K2C"). K2C bring a suite of technology solutions that perfectly complement Eckoh's proposition and will enable Eckoh to present a complete portfolio of solutions that are used in all Contact Centres. K2C also bring a high quality list of customers and partners that Eckoh are actively working with.

It was recently announced that after almost eight years in the role as Chairman, and in line with corporate governance best practice, I will be stepping down from the Board at the 2017 Annual General Meeting. The eight year period has seen a sustained period of growth of profits, revenue and more than a 10 fold increase in the market capitalisation of the Group. This has been due to the sustained efforts of the first class team of employees and senior managers that we have at Eckoh, led by Nik Philpot. I would like to take this opportunity to thank them all, and particularly Nik and Adam Moloney who has also stepped down this year, from his role as Group Finance Director. It has been a great pleasure working with them. They have been the foundation for all of the progress made by the Company in this period and will ensure that this progress continues for years to come. I would also like to welcome Chrissie Herbert as our new Chief Financial Officer.

I am confident that the Company is extremely well placed to capitalise on a very significant global market opportunity.

Chris Batterham  
Chairman

## BUSINESS REVIEW

Eckoh has made considerable progress in the year ended 31 March 2017 with growth delivered both in the UK and in the United States. In the US, there has been rapid adoption of SaaS-style pricing, delivering higher levels of revenue visibility and the Group has successfully tendered for and won increasingly large contracts. In the UK, we have maintained our excellent client retention rates and continued to actively cross-sell our secure payment products and customer contact solutions to our established client base. It is this continued success in winning new clients, the transition in the US to the SaaS model combined with renewal rates that are typically 100%, that has led to high levels of recurring revenue which increased to 76% in this period.

### Two highly complementary products

Eckoh's go-to-market proposition encompasses two highly complementary areas: secure payments products and customer contact solutions.

The Group's patented Secure Payment products remove sensitive personal and payment data from IT environments and contact centres. This helps organisations to reduce the risk of fraud, secure sensitive data and become compliant with the Payment Card Industry Data Security Standards ("PCI DSS") and wider security regulations such as the General Data Protection Regulation ("GDPR"). Our Secure Payments products are generally straightforward to deploy, they enjoy extremely high renewal rates and provide an excellent platform from which to cross-sell other Eckoh solutions to our customer base.

The Group's Customer Contact solutions assist organisations to transform the way that they engage with their customers by enabling enquiries and transactions to be performed on whatever device the customer chooses, through whatever form of communication. Eckoh's proposition covers interactive voice, web, email, SMS, mobile, live webchat and social media, enabling our clients to increase efficiency, lower operational costs and provide a true Omni-channel experience.

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

In the UK the Group sells its full portfolio of services and over the course of the last 15 years has built a client base of 87<sup>1</sup> customers, with many customers having been with the Group for more than a decade. In the US market, a territory that Eckoh entered only three years ago, the Group's focus is on products where it has the greatest differentiation and the least competition. These products comprise secure payments, contact centre infrastructure support and the Group's Omni-channel contact centre agent desktop product Coral.

### A clear growth strategy

Our strategic objectives for this year and going forward all underpin our desire to become the global leader in our specialist areas, but in particular, secure payments. These objectives include:

- Continuing to integrate and leverage the assets of the businesses acquired in recent years
- Expanding our US footprint to capitalise on the fast-growing market for secure payment opportunities
- Increasing US recurring revenues by favouring SaaS style pricing
- Broadening channel partnerships in both UK and US markets
- Continuing to invest in R&D to underpin next generation product development and maintain market leading position
- Maximising client value through cross-selling
- Continuing to evaluate acquisition opportunities that can support our growth strategy.

1. Clients who generate more than £25,000 of revenue per annum.

## **A significant and largely untapped market opportunity**

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

The contact centre industry in the UK and US is so large that, in each case, it represents around 4% of the entire workforce, and the industry continues to grow. According to ContactBabel, there are currently over 6,000 contact centres in the UK with 766,000 agent seats employing nearly 1.3 million staff. We typically target organisations that utilise contact centres with more than 50 agent seats and this represents over 2,500 in number and over 500,000 agent seats. Our current client base of 87 means we have addressed just over 3% of the UK market.

The US market is five times larger than the UK with over 40,000 contact centres and over 3.5 million agent seats, employing 6 million staff. There are 14,000 US contact centres that have over 50 seats, representing 2.9 million agent seats in total. With a base of 41<sup>1</sup> clients in the US today we have addressed less than 1% of the target market.

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

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

## **Operational Review**

### **US Division (33% of Group revenue, 54% recurring revenue<sup>2</sup>)**

This has been a transformational year for the US division, with record levels of business being won in secure payments and key operational decisions having been made to support our ongoing development and success in the US market. In May 2016 Dan Arntz, who previously worked for our partner West Corporation, joined the Group to lead the sales team and was then subsequently promoted to head up the division.

Revenue from US operations in the year increased to £9.7m (FY16: £4.0m) and now represents 33% of Group revenues. Whilst some of this increase relates to a full twelve-month contribution from the acquired Product Support Solutions Inc ("PSS") business, Secure Payment revenues in the year increased from £0.7m to £2.0m.

During the year, we closed the Professional Services division of the acquired PSS business as its revenues were of a short-term, one-off nature, that did not fit well with Eckoh's chosen financial model. The division had a large loss-making contract, which led to a loss of £0.7m over the year. Following its closure the PSS and Eckoh businesses are now fully integrated.

Throughout the period we have made significant progress in adopting SaaS style pricing as our preferred model. When Eckoh entered the US payments market in April 2014, customers would typically pay a large initial fee for the implementation of their service followed by an annual support and maintenance contract representing 15-20% of the initial payment ("Capex pricing"). Under the SaaS-style model, most

1. Clients who generate more than \$35,000 of revenue per annum
2. Recurring revenue is defined as on-going revenue based on a transactional basis, rather than revenue derived from the set-up and delivery of a new service or the delivery of hardware.

of the revenue is recognisable across the term of the agreement, which is typically three years (“Opex pricing”). Although this method of pricing leads to lower revenues in the year that the contract is signed, it provides greater visibility on future revenues and higher levels of recurring revenue in line with the UK financial model. Given the scale of the opportunity in the US, the Group has focused on the largest value opportunities due to the disproportionate level of effort and cost required for low value customers.

This change in strategy for payment clients has been extremely successful as shown in the table below;

|      | <b>Contract wins</b> | <b>Total Contract Value</b> | <b>Average Contract Value</b> | <b>Capex Pricing</b> | <b>Opex Pricing</b> |
|------|----------------------|-----------------------------|-------------------------------|----------------------|---------------------|
| FY15 | 5                    | \$0.3m                      | \$53K                         | 5                    | 0                   |
| FY16 | 9                    | \$1.6m                      | \$173K                        | 8                    | 1                   |
| FY17 | 9                    | \$8.3m                      | \$918K                        | 2                    | 7                   |

Whilst the number of contracts won in the year is identical to the previous year, the overall contract value secured is over five times higher. In addition, seven of the nine payment deals won in the year were based on the Opex pricing model. As a result, only \$1.8m or 21% of the \$8.3m contract value won this year has been recognised in the year with the remaining \$6.5m to come through largely over the next three years.

The largest Secure Payments contract won in the year was a five-year contract worth \$3.7m, which was won directly with the same client with whom we suffered the loss-making contract in the discontinued Professional Services division. The professional way that we concluded the implementation of that contract was a key factor in our ability to secure the later and more lucrative deal. The largest payments contract won to date through our partner West Corporation, to provide our tokenisation payments solution to an insurance company in the Fortune 100, is now fully live servicing payments made through over 5,000 live agents, as well as handling payments through their automated system. Lastly, since year end we have won a five-year contract with Carters Inc, North America’s largest supplier of clothing to young children with annual sales of over \$3 billion, also to deploy our patented tokenisation solution.

The remaining US revenues have been delivered from Customer Contact Solutions, which have traditionally been provided by the acquired PSS business. The two key revenue streams are for Contact Centre Support and Product sales. The Support division provides third party support for infrastructure such as Avaya, Cisco, Genesys and Aspect within large Contact Centre operations. In June 2016 we were successful in securing our largest ever contract win for support, signing a three-year contract with a major US telecommunications company. The contract, which commenced in July, sees the customer pay a monthly fee for the support provided and is expected to be worth more than \$5.0m over the three-year term.

The Product division sells and implements contact centre technology solutions owned by both Eckoh and third parties. The lead product is a browser-based agent desktop tool called Coral. The Coral desktop enables agents to handle customer queries in a more efficient manner by bringing all their communications into a single screen, rather than having to move between multiple screens, and also enables organisations to standardise their facilities that operate on different underlying technology. In the interim results, we disclosed that a three-year agreement had been secured with one of the largest US telecommunications providers to provide Coral to over 3,000 contact centre agents in a new facility. Since then we have seen a subsequent order from the same client for additional licenses and have a realistic opportunity to expand further into their considerable Contact Centre estate. There are other significant sized pipeline opportunities for the solution, and as we fully integrate the K2C product set into the desktop capability we believe the offering will become even more compelling.

The US division enters the new financial year with a solid base of contracted revenues and a monthly run rate of revenue from existing customers at the period end of \$0.7m. Recurring revenues for the year in the US were strengthened to 54% (FY16: 34%) and this is anticipated to grow further in the coming year as the focus remains on securing long term Opex contracts and the proportion of revenue from secure payments increases.

### **UK Division (67% of Group revenue, 87% recurring revenue<sup>1</sup>)**

In the UK, revenue has increased by 5% to £19.4m (FY16: £18.5m). In FY16 there was £1.7m more revenue coming from one off fees than in FY17, particularly related to the implementation of the O2 solution for Capita, which led to recurring revenue in that year of 79%. These higher than normal fees have largely been replaced with recurring charges, which has increased recurring revenue to 87% and in March 2017 we had an exit monthly recurring run rate of £1.4m. Gross margins in the UK have remained high at 83% (FY16: 83%).

We now have 87 (FY16: 66) UK clients who generate more than £25k per annum of revenue, twice the level we had three years ago (FY14: 43). All but one of the 25 clients above this revenue threshold whose contracts were due to expire this year, renewed with Eckoh again, the exception being a small customer who operated the legacy Veritape call recording solution, a product that we no longer actively sell. The largest contract to be renewed this year was with Whitbread plc for Premier Inn and this was renewed for a further three years running up to November 2019, which will take the live of our relationship to over a decade.

Looking at the split of UK revenue for these 87 clients above the £25k level, 23% came from those who only take Payment services, 33% from those who only take Customer Contact Solutions and the remaining 44% is from those who take a combination of both solutions. The average client contract value is £216K per annum, but of those who take the combined offering it is £590K, significantly higher than those who take services from one part of the portfolio. Cross-selling to existing clients in this way is a key part of the Eckoh strategy, not only to drive incremental revenue but to continue the trend of extremely high levels of client retention and to increase the lifetime value of the customer.

Partnership channels remain an important channel to market for the Group and in January we further demonstrated the value of the Capita partnership with the announcement of a four-year contract to provide our EckohROUTE solution to a leading Mobile Virtual Network Operator. This contract adds to the £15m of contract value that had been secured from three previous contracts that had come through the Capita partnership agreement since 2013, but was the first new agreement in nearly a year. We are working closely with Capita to bring fresh momentum to their sales pipeline. To broaden our channel partnerships in the UK, we have been working hard to develop the relationship with Teleperformance who are the main route to market for K2C. This month we were able to announce the first contract to be won through Teleperformance to deliver solutions from both the Eckoh and K2C portfolio into Her Majesty's Passport Office. This high quality contract illustrates the strength of Eckoh's combined offering since acquiring K2C.

In May 2016 we signed a 3-year contract with allpay, a provider of bill payment services to the public sector. The intention was to provide services to allpay directly, but also to set up a framework agreement to allow them to syndicate Eckoh's CallGuard payments solution to their 280 customers, predominantly housing associations. In the second half of the year we supported them in their promotion of the CallGuard solution to their customers, which has been received enthusiastically. We have concluded two syndications already and expect to see a steady flow of additional orders over the course of the three-year term. Whilst individually these orders are small they will over time represent a very significant collective annual value.

In July 2016 we completed the acquisition of Klick2Contact ("K2C") a provider of live web help and Omni-channel customer engagement solutions. The K2C acquisition has been swiftly added to our portfolio of services offered to customers and has generated significant cross selling activity from Eckoh's customer base. With the addition of K2C, Eckoh is now able to offer a complete Omni-channel suite of customer engagement solutions backed with a secure payment offering that covers voice, web, SMS, mobile and live webchat. Whilst there are competitors who can provide elements of this portfolio, we aren't aware of any competitor globally who has such a comprehensive product suite.

### **Innovation**

During the year our development team have continued to look to innovate and bring new products to market. In October we announced that we were the first company anywhere in the world to process the world's first Apple Pay payment over a telephone voice call. This functionality allows Apple iPhone users

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

to authenticate payments over the telephone by using their fingerprint to authenticate payments rather than having to provide a credit card number. Since this successful proof of concept we have been developing this solution to operate in a full production environment and this month we launched the first live service into a large water utility for trial.

In February, we announced that we had developed the capability to transact secure payments over live web chat by combining our secure payment expertise with the web chat facility provided by the K2C acquisition. It is these innovations, many of which we file patent applications for, that differentiate Eckoh in the payments market and ensure that our offering, supported by our customer engagement suite remains the market leader.

In Customer Contact, we are also continuing to bring to market new innovative offerings. The emergence of Chatbots is an area that has long interested Eckoh and we have been working on our initial designs in recent months. A Chatbot is a computer program that simulates a human conversation, and it is increasingly used for handling enquiries on websites as an alternative to a human agent. For Eckoh we have been able to combine the K2C knowledge base technology, where customers can ask rudimentary questions on a website and receive a pre-packaged response, with Eckoh's long standing expertise in managing natural language responses. Whilst Eckoh's experience in this area has traditionally been in speech recognition, the principles are very similar. We believe this relevant combination of skills and experience will enable us to create Chatbot technology which will perform extremely well in this exciting emerging market.

### **Board Changes**

During the year we strengthened the Board with two new non-executive Directors. Peter Simmonds joined in July 2016, bringing with him over 35 years of experience at senior management and board level, principally in the areas of software, banking, insurance, finance and outsourcing. Guy Millward, who is currently Chief Financial Officer of Imagination Technologies Group plc, joined the Board in October. Guy has in-depth expertise in finance across both publicly listed and privately held technology companies. We are also very pleased that Chris Humphrey joined the Board as a non-executive Director in June and will become Chairman from the AGM in September. Chris has 30 years board experience working with a range of technology companies including SDL, Aveva, Vitec and Anite. He will be replacing Chris Batterham who is stepping down after eight years as Chairman, during which time Eckoh has seen uninterrupted growth and a substantial increase in shareholder value. We would like to thank Chris for his huge contribution during his tenure on the Board.

In May 2017, we were very pleased to welcome Chrissie Herbert to the role of Chief Financial Officer, replacing Adam Moloney who announced his intention to step down last July. Chrissie joined Eckoh from her role as UK and Ireland Finance Director at PayPoint plc, the FTSE 250 retail technology and multi-channel payment solutions business. Adam had been with Eckoh for 14 years and spent 13 years as Group Finance Director, and we would like to thank him for his very significant contribution to Eckoh's success in recent years and to wish him every success with his next endeavour.

### **Current Trading and Outlook**

The strong period of trading seen in the second half of the financial year has continued into the start of the new financial-year, with monthly recurring revenues from the existing client base approaching £2m, and this excludes a number of contracts which have been agreed but have yet to generate revenue. We have an excellent sales pipeline in both markets, extremely high revenue visibility from the contracted commitments of our recurring base and with the trend of high client retention rates the future prospects of the Group remain excellent.

Whilst we expect the strengthened revenue base of UK customers to lead to good organic growth in the year ahead, it is in the US where the greatest opportunity for growth exists. The US Contact Centre market is several times larger than that of the UK but the implementation of Secure Payment technologies remains a long way behind the UK and Europe. The pipeline of opportunity suggests that the US is beginning to catch up with the need to look after customer data and Eckoh is extremely well placed to execute on this opportunity.

## Financial Review

### Revenue

Revenue for the period was 30% higher than the prior financial year at £29.1m (FY16: £22.5m). The US represented 33% of total group revenues (FY17: 18%).

|              | FY17<br>(UK)<br>£000 | FY17<br>(US)<br>£000 | FY17<br>Total<br>£000 | FY16<br>(UK)<br>£000 | FY16<br>(US)<br>£000 | FY16<br>Total<br>£000 |
|--------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| Revenue      | 19,371               | 9,707                | 29,078                | 18,492               | 3,958                | 22,450                |
| Gross Profit | 16,133               | 4,194                | 20,327                | 15,266               | 1,577                | 16,843                |
| Gross margin | 83%                  | 43%                  | 70%                   | 83%                  | 40%                  | 75%                   |

Margins within the traditional PSS activity have typically been lower than those seen in the Eckoh business due to the service nature of its offering. Gross profit in the year increased by 21% to £20.3m (FY16: £16.8m), although Group gross margin reduced to 70% (FY16: 75%). Gross margin in the US increased to 43% in the period (FY16: 40%) and it is anticipated that we will see margins increase in the US as Secure Payments represent an increasing percentage of the whole and the impact of closing the Professional Services division takes effect. It is anticipated as a result of this increased proportion of high margin activity, that reported gross margins for the Group should increase.

### Profitability Measures

Profitability in the period was impacted by the previously disclosed significant cost overruns in the Professional Services division of the newly acquired PSS business. These cost overruns resulted in a loss of £0.6m being made in that division in the first half of the financial year, which increased, as expected, to £0.7m for the full year. Despite the impact of this issue, adjusted EBITDA<sup>1</sup> for the period increased by 8% to £5.8m (FY16: £5.4m).

|   | Year<br>ended<br>31 March<br>2017<br>£'000 | Year<br>ended<br>31 March<br>2016<br>£'000 |
|---|--|--|
| <b>Profit before tax</b>                  | <b>1,623</b>                               | 2,406                                      |
| Amortisation of intangible assets         | 2,619                                      | 2,008                                      |
| Depreciation                              | 1,059                                      | 799  |
| Transactions relating to acquisitions     | 319  | (500)                                      |
| Expenses relating to share option schemes | 24   | 585  |
| Interest receivable                       | (43)                                       | (11)                                       |
| Finance expense                           | 205  | 77   |
| <b>Adjusted EBITDA<sup>1</sup></b>        | <b>5,806</b>                               | 5,364                                      |

### Statement of financial position

Whilst Eckoh continue to seek to innovate new products such as those detailed above, little of this is capitalised on the balance sheet with only £0.2m (FY16: £0.5m) added in the year to the value of the intangible fixed assets of the Company. Whilst taking a prudent approach to capitalising salary cost reduces reported profit, management believes this approach gives an accurate reflection of the trading performance of the Company.

1. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is the profit before tax adjusted for depreciation, amortisation, finance income, finance expense, and expenses relating to share option schemes and acquisitions

*Finance expense*

For the financial period ended 31 March 2017, finance expenses include a charge of £63k for the unwinding of the discount on the contingent consideration for the acquisition of K2C. No such charge was incurred in the prior period. In the financial period ended 31 March 2017 the net interest charge was £99k (FY16: 66k).

*Cashflow and liquidity*

The Company increased its loan from Barclays by £1.75m to £6.5m to assist the financing of the acquisition of K2C in the period. In the financial period ended 31 March 2017, £0.7m of the loan was repaid in accordance with the terms of the loan. During the year, working capital has been impacted with significant payables being settled in the early part of the financial year, which were included within trade and other payables as at 31 March 2016. In addition a dividend payment of £1.1m was made in November 2016; despite this net cash at 31 March 2017 was £0.2m.

*Dividends*

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2017 of 0.48 pence per ordinary share be paid to the shareholders whose names appear on the register at the close of business on 29 September 2017, with payment on 27 October 2017. The ex-dividend date will be 28 September 2017. This recommendation will be put to the shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.2m.

## **CORPORATE RESPONSIBILITY**

### **Our business**

Eckoh is committed to running the business in an ethical and responsible manner and we focus our efforts on three distinct areas: workplace, community and environment.

### **In the workplace**

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

At Eckoh, we've created an award winning, colourful, dynamic and collaborative working environment where employees find flexibility, an open plan office and the environment to thrive in their roles. We embrace technology to enable remote working, teleconferencing and effective collaboration across all our geographic locations.

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

We recognise the outstanding contribution of our employees through two schemes. Firstly, our employees' outstanding efforts are recognised, through Reward and Value Everyone ("RAVE") programme. Each month, employees are encouraged to nominate their peers to receive a recognition award. Secondly, every year, we thank those that have shown loyalty and commitment to us with our Long Service Award scheme. In September 2016, we introduced the Eckoh plc Share Incentive Plan ("the plan"). The Scheme provides employees with the opportunity to acquire shares in Eckoh plc. Shares are purchased on behalf of the employee from amounts sacrificed from their salary on a monthly basis and matched on a two for one basis by the company. Any shares acquired will be held in a trust in accordance with the terms of the Plan. In order to maximise the tax benefits available, the employee must remain employed with the company and hold the shares within the Trust for a minimum of five years.

We continue to look to increase the employee base and are pleased to employ over 273 employees in the UK and internationally.

### **Development**

We encourage our people to develop their skills and keep up to date with new technology, standards and processes. To build a high performance culture at Eckoh and support advancement, we offer a suite of training and development options for every employee within the business to enable them to progress through the organisation. As well as the opportunity to train towards a nationally recognised qualification, we believe in holding Hackathons and workshops to keep skills up-to-date. We also provide 'Thinking and Drinking' sessions for Developers to share technology best practices and invite technology experts to speak to our employees about their area of expertise. Inspiring speakers such as Sebastian Bergmann, and Simon Singh with his infamous code breaking machine, have presented.

Our robust induction programme for all new starters is spread over a number of weeks to ensure that all new employees are welcomed and receive the adequate training as well as the information they need to become successful in their role.

On many occasions we've seen young school leavers take junior roles in the organisation and have successfully progressed to take more influential roles within the business.

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

### **Communication**

We maintain our enthusiastic and motivated workforce through effective two-way communication. Employees are regularly informed of matters, both positive and negative, that are affecting the business. This news is communicated with a feedback request, through bi-monthly presentations by Directors and regular email bulletins. We encourage our managers to share progress information with their teams and encourage attendance at regular employee forum meetings where they can make suggestions for improving the working environment.

### **Health, Safety and Accessibility**

The health, safety and wellbeing of the people on our premises are our highest priority. We hold regular risk management reviews that scrutinise the safety of our working environment. With trained First Aiders in all offices we actively encourage staff to protect each other from potential harm and be aware of their surroundings, mitigating any risk of slips, trips or fall.

For employees or guests with reduced mobility, our offices are fully accessible with elevators to each floor and disabled parking spaces. For those who choose to cycle, or run, as part of their daily commute we have provided showers for their use and convenience. We actively encourage a healthy lifestyle and we have partnered with three local fitness centres that offer Eckoh discounted memberships. We also provide free fruit for all our staff to encourage health and wellbeing and regularly organise for external therapists to treat our employees to sports massages and reflexology.

### **In the community**

Eckoh recognises the importance of giving something back to the local community, as well as supporting national causes.

#### **Motor Neurone Disease Association**

In the lead up to Christmas 2016, the Eckoh team provided a raffle for employees in aid of Motor Neurone Disease Association and were extremely proud to have raised £840 for the charity. Motor neurone disease affects the motor nerves, or neurones, in the brain and spinal cord which pass messages to the muscles. Degeneration of the motor neurones leads to weakness and wasting of muscles, causing increasing loss of mobility in the limbs as well as difficulties with speech, swallowing and breathing.

#### **King Langley School**

Our HR team were delighted to visit Kings Langley School in March 2017 for a careers fair. It was a great opportunity to speak to our local community and inspire those just at the beginning of their career paths. We were able to provide support and guidance to parents and students about entering the world of work and careers at Eckoh.

#### **Cavendish School**

Our HR team took part in an Employability Skills event on in March 2017 at The Cavendish School in Hertfordshire. The initiative is part of Connect Dacorum's programme of activities to help local pupils get ready for the working world. The interactive event was well attended by 140, Year 10 pupils who were provided with a 1:1 review of their CVs, advice with the interview process and the opportunity to participate in mock interviews.

The Cavendish School commented "What a valuable session for the students. Their level of engagement and feedback shows how much they enjoyed it. The facilitators made CVs and interview skills very relevant to Year 10 students, despite the world of work being quite a long way off for most of them."

The Eckoh facilitators from the HR team were keen to help shape the next generation and pass on valuable advice.

### **Macmillan Coffee morning**

Eckoh was delighted to be able to support the Macmillan Cancer charity with the World's Biggest Coffee morning. Our employees lovingly baked lots of cakes and sold them with tea and coffee to raise an impressive £325 for the charity.

### **Red Nose Day**

Eckoh supported Red Nose Day by holding a cake sale - proudly raising £245 for the charity.

### **In The Environment**

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

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

- Reduced business travel through the use of web and phone based conferencing systems
- Energy efficient and motion sensor lighting installed in our offices
- Comprehensive recycling programs established in all possible locations
- Photocopiers set to double-sided, black and white printing to reduce paper/ink use
- Provided reusable cups and glasses to reduce waste associated with disposable cups
- Encouraged alternative methods of transport to travel to and from work e.g. cycle to work scheme.



By order of the Board  
C Herbert  
Company Secretary  
12 June 2017

# ECKOH PLC GOVERNANCE REPORT

## BOARD OF DIRECTORS

### **Chris Batterham – Non-executive Chairman**

Chris qualified as an accountant with Arthur Anderson and has significant experience in the technology based business environment, including the flotation of Unipalm on the London Stock Exchange. Currently on the boards of Blue Prism Group plc and NCC Group plc, Chris brings a wealth of experience in the strategic development of companies in the IT sector.

### **Guy Millward – Non-executive Director**

Guy Millward has held a number of senior finance positions with both publicly listed and privately held technology companies. Guy joined the board in October 2016 and is currently CFO at Imagination Technologies Group plc, a leading multimedia, communications and technology company. His previous roles include; Group Finance Director at Morse Plc, Group Finance Director at Alterian Plc and more recently, CFO at Advanced Computer Software Group plc from 2013, until its sale to Vista Equity Partners in mid-2015. Guy qualified as a chartered accountant with EY in 1989.

### **Peter Simmonds – Non-executive Director**

Peter is a Chartered Certified Accountant, who retired from the role of CEO of dotdigital Group plc in June 2015 after 8 years. He has 35 years of experience at senior management and board level, principally in the areas of banking, insurance, finance, software and outsourcing. He has considerable business entrepreneurial experience having been involved at start-up or early stage of several companies in various industry sectors including consultancy services, vehicle leasing, computer software and internet solutions sectors. He is currently Chairman of D4T4 plc, Non-Executive director of dotdigital Group plc, Non-Executive Chairman of Cloudcall plc and on the board of the Quoted Companies Alliance.

### **Nik Philpot – Chief Executive Officer**

Nik is a founder of Eckoh and was appointed COO and Deputy CEO in September 2001, before being appointed CEO in September 2006. Nik has 30 years' experience in the voice services industry; he was originally at British Telecom before establishing a number of start-up businesses in the telecoms and technology sectors. As CEO of Eckoh, he has created a leading provider of secure payment solutions and customer contact services for the contact centre industry.

### **Chrissie Herbert – Chief Financial Officer**

Chrissie joined the Board in May 2017 from her role as UK & Ireland Finance Director at PayPoint plc. She brings with her significant industry insight and experience from one of the leading global secure payment companies. In addition, having qualified as a Chartered Accountant at KPMG, Chrissie gained considerable executive experience at a number of high growth, consumer facing businesses including Collect+ and Travelodge Hotels Ltd.

## **DIRECTORS' REPORT**

The Directors of Eckoh plc present their annual report, together with the audited financial statements of the Company and the Group for the year ended 31 March 2017.

### **Principal activity**

The principal activity of Eckoh plc and its subsidiary undertakings ("the Group") is the provision of multi-channel customer service and secure payment solutions for customer contact centres. The Chairman's Statement (page 3) and the Business Review (pages 4 to 11) report on the progress made in the financial year under review.

The subsidiary undertakings are listed on page 49 to 50.

### **Results and dividends**

The audited financial statements and related notes for the year ended 31 March 2017 are set out on pages 25 to 62. The Group's profit for the year is set out in the consolidated statement of comprehensive income on page 25.

The Group's financial risk management is discussed in note 3. The Directors' regularly assess the Group's key commercial risks, which are considered to be the competitive market sector and the stability of the infrastructure that supports the Group's products and services, which directly impacts the customer service levels the Group provides to its customers. Commercial risks are managed through the introduction of new products and services and by maintaining high levels of customer service, both at the implementation stage of a product or service and the on-going delivery of the Group's products and services. Infrastructure stability is managed through 24 hour technical monitoring and an approach to continuous improvements of the operations of the Group.

### **Post Balance Sheet Events**

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2017 of 0.48 pence per ordinary share be paid to the shareholders whose names appear on the register at the close of business on 29 September 2017 with payment on 27 October 2017. The ex-dividend date will be 6 October 2017. This recommendation will be put to the shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.2m.

### **Research and development**

The Group capitalised £0.2m (2016: £0.5m) of development expenditure during the year. The majority of this cost arose from the effort required to develop the product range along with enhancements to client services.

### **Financial instruments**

The financial instruments of the Group are set out in the notes to the financial statements on pages 30 to 59. Please refer to note 2 for a summary of principal accounting policies; to note 3 for the Group's financial risk management policies in relation to liquidity risk or cash flow risk, interest rate risk and foreign currency risk, as well as capital management; to note 15 for credit risk and loans and other receivables; to note 16 for cash and cash equivalents and to note 17 for trade and other payables.

### **Related party transactions**

Related party transactions are disclosed in note 22.

### **Significant accounting policies**

The significant accounting policies applied to the consolidated financial statements are included within note 2.

### **Annual General Meeting**

The next Annual General Meeting of the Company will be held at 11:00 on 20 September 2017. Details of the business to be proposed at the Annual General Meeting are contained within the Notice of Meeting, which accompanies this Report.

## Directors

The current Directors of the Company are shown on page 16.

The articles of association require that at the Annual General Meeting one third, or as near as possible, of the Directors will retire by rotation. Nik Philpot, Chief Executive Officer will stand for re-election at the Annual General Meeting. In addition, Chrissie Herbert, Chief Financial Officer, Peter Simmonds, Non-Executive Director and Guy Millward, Non-Executive Director will all stand for election at the Annual General Meeting, this being their first Annual General Meeting. As previously announced Chris Batterham, Chairman will step down from the Board at the Annual General Meeting and Chris Humphrey, the recently appointed Director will stand for election as Chairman.

## Directors' interests

The interests of the Directors in the share capital of the Company and their options in respect of shares in the Company are shown below. No Director has had any material interest in a contract of significance (other than service contracts) with the Company or with any subsidiary company during the year.

## Directors' interests in shares

The interests, all of which are beneficial, of the Directors (and their immediate families) in the share capital of the Company are set out below:

|                   | 9 June 2017<br>Ordinary shares<br>of 0.25 pence each | 31 March 2017<br>Ordinary shares<br>of 0.25 pence each | 1 April 2016<br>Ordinary shares<br>of 0.25 pence each |
|-------------------|--|--|---|
| N B Philpot (i)   | 5,854,873  | 5,854,873  | 5,704,873   |
| C M Batterham     | 1,000,000  | 1,000,000  | 950,000   |
| C J Humphrey (ii) | 50,000   | -  | -   |

Notes:

- (i) N B Philpot's spouse is the beneficial owner of 80,000 shares that are included above.
- (ii) C J Humphrey was appointed as a Director on 8 June 2017 and held Eckoh shares at the date of his appointment.

## Directors' share options

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

|                    | Note | At 1 April<br>2016<br>(number) | Granted<br>in year<br>(number) | Forfeited<br>in year<br>(number) | Exercised<br>in year<br>(number) | At 31<br>March<br>2017<br>(number) | Exercise<br>price<br>(pence) | Earliest<br>date for<br>exercise | Latest<br>date for<br>exercise |
|--------------------|------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------|----------------------------------|--------------------------------|
| N B Philpot        | A    | 2,157,991                      | -                              | -                                | -                                | 2,157,991                          | 0.00                         | 01.01.16                         | 01.01.23                       |
|                    | B    | 4,265,983                      | -                              | -                                | -                                | 4,265,983                          | 0.00                         | 01.01.16                         | 01.01.23                       |
| A P Moloney<br>(C) | A    | 710,997                        | -                              | -                                | 710,997                          | -                                  | 0.00                         | 01.01.14                         | 01.01.23                       |
|                    | A    | 710,997                        | -                              | -                                | 710,997                          | -                                  | 0.00                         | 01.01.15                         | 01.01.23                       |
|                    | A    | 710,997                        | -                              | -                                | 710,997                          | -                                  | 0.00                         | 01.01.16                         | 01.01.23                       |
|                    | B    | 1,066,496                      | -                              | -                                | 1,066,496                        | -                                  | 0.00                         | 01.01.16                         | 01.01.23                       |

The information contained in this table has been audited.

Notes:

- a) Granted under the 2012 Eckoh plc Long Term Incentive Plan ("2012 LTIP"). The number of shares that ultimately vested was subject to the satisfaction of share price targets. The share price targets were comfortably exceeded and all of the shares are now exercisable.
- b) Granted under the 2012 Eckoh plc Long Term Incentive Plan ("2012 LTIP"). The number of shares that ultimately vested was subject to the satisfaction of share price targets. The share price targets were comfortably exceeded and all of the shares are now exercisable.
- c) A P Moloney resigned on 2 May 2017.

## 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 that may be incurred by them while carrying out their duties. This policy is available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

### **Share capital and reserves**

Details of changes in the authorised and issued share capital and reserves of the Company are shown in note 18 to the financial statements.

### **Share schemes**

The Directors believe that a key element in attracting, motivating and retaining employees of the highest calibre is employee involvement in the performance of the Group through participation in share schemes. By doing so, the Directors believe that employees' interests will be aligned with those of shareholders. Details of options granted under the share option schemes are set out in note 20 to the financial statements. All permanent employees are eligible to join a scheme.

### **Payments to creditors**

The Company and its subsidiaries have a variety of payment terms with their suppliers. The Group agrees payment terms with its suppliers when it enters into binding purchasing contracts for the supply of goods and services. The Group seeks to abide by these payment terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 31 March 2017, the amount of trade creditors shown in the balance sheet represents 79 days of average purchases for the Group (2016: 46 days). The Company had no trade creditors at 31 March 2017 or 31 March 2016.

### **Statement of Disclosure of Information to Auditors**

As far as the Directors are aware there is no information relevant to the audit of which the Company's auditors are unaware and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any such relevant information and to establish that the Company's auditors are aware of that information.

### **Auditors**

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

### **Shareholder Relations**

The Company holds meetings with its major institutional investors and general presentations are given covering the interim and preliminary results. The Chairman, C M Batterham, is available to attend presentation meetings and other presentations on an ongoing basis. All Directors have access to the Company's nominated advisors who give feedback from shareholders and receive copies of broker update documents.

All shareholders have the opportunity to raise questions at the Company's Annual General Meeting, or leave written questions, which will be answered in writing as soon as possible. At the meeting the Chairman will give a statement on the Group's performance during the year, together with a statement on current trading conditions.

In addition to regular financial reporting, significant matters relating to the trading or development of the business are disseminated to the market by way of Stock Exchange announcements. The Company's Annual Report and Accounts, Interim Statements and other major announcements are published on the Company's corporate web site at [www.eckoh.com](http://www.eckoh.com).

### **Going concern**

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

By order of the Board  
C Herbert  
Company Secretary  
12 June 2017



## **CORPORATE GOVERNANCE**

### **Compliance Statement**

The Board of Eckoh plc recognises its responsibilities to maintain high standards of corporate governance throughout the Group. The Board continues to give careful consideration to the principles of corporate governance as set out in the UK Corporate Governance Code published by the Financial Reporting Council, although as a company listed on AIM it is not required to comply with the UK Corporate Governance Code. The Company is committed to complying with the UK Corporate Governance Code so far as is practicable and appropriate for a public company of its size and nature.

### **Board of Directors**

The Chairman is responsible for the effective running of the Board of Directors. The Board currently has five members, comprising the Non-Executive Chairman, the Chief Executive, the Chief Financial Officer and two Non-executive Directors. In line with corporate governance best practice, C M Batterham, who has served as Non-Executive Chairman since July 2009, will be stepping down from his position and leaving the Board at the Annual General Meeting, by which time the Group expects to have a successor in place.

The biographical details of the Board members are set out on page 16.

There is a schedule of formal matters specifically reserved for the full Board's consideration, including a policy enabling Directors to take independent professional advice in the furtherance of their duties at the Company's expense. The Board programme is designed so that Directors have a regular opportunity to consider the Group's strategy, policies, budgets, progress reports and financial position and to arrive at a balanced assessment of the Group's position and prospects. In addition, strategic developments are on the agenda at each Board meeting and are subject to further ad hoc review by the Board as triggered by relevant external factors. Also, where appropriate, the Board programme also includes a day set aside purely for strategic review and planning.

The Company has a clear division of responsibility between the roles of Chairman and Chief Executive within the business.

The Non-Executive Chairman has a responsibility to ensure that the strategies and policies proposed by the Executive Directors are fully discussed and critically examined, not only with regard to the best long-term interests of shareholders, but also having regard to the Company's relationships with its employees, customers and suppliers. The Board and its Committees are supplied with information and papers to ensure that all aspects of the Company's affairs are reviewed on at least an annual basis.

Day-to-day management of the business is delegated to the Operating Board, consisting of the two Executive Directors and certain senior managers, which meets monthly. The Board is dependent on the Operating Board for the provision of accurate, complete and timely information and the Directors may seek further information where necessary. The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings.

Under the Company's articles of association, each year at least one third of the Directors must retire and submit themselves for re-election by the shareholders at the Annual General Meeting. The communication accompanying the Company's Notice of Annual General Meeting sets out reasons for the Board's belief that the individual should be re-elected.

### **Board Committees**

Certain responsibilities are delegated to the Remuneration and Audit Committees. Both committees have written terms of reference, which define their authorities, duties and membership.

### **Audit Committee Report**

The Audit Committee is responsible for reviewing the following:

- accounting procedures and controls;
- financial information published by the Group, including the Annual Report, Preliminary & Interim Statements and on the Company's website;
- risk management and the effectiveness of the Group's system of internal financial control;
- the terms of reference for the Group's external valuers; and
- the results and effectiveness of the Company's external audit.

The Audit Committee formally met twice during the period under review, with no absentees. The Group Finance Director, attended all Audit Committee meetings by invitation and provides advice to the Committee where appropriate. The Chief Executive was invited to and attended the meetings. The Company's auditor attended the meetings and the Committee considered reports issued by them. The auditor has direct access to the Audit Committee without the presence of an Executive Director. The Committee reviews the effectiveness of the Company's internal financial controls by reference to reports from the external auditors. The Committee also reviews the scope and results of the external audit as well as its cost effectiveness.

The Audit Committee annually reviews the requirement for an internal full-time audit function. The Committee has decided that none is necessary at present. Instead, other monitoring processes have been applied to provide assurance to the Board that the system of internal control is functioning satisfactorily. Internal controls are discussed under the internal control and risk management section below.

### **Internal Control and Risk Management**

The Directors formally acknowledge their responsibility for establishing effective internal control within the Company. In this context, control is defined as those policies, processes, tasks and behaviours established to ensure that business objectives are achieved most cost effectively, assets and shareholder value are safeguarded and laws, regulations and policies are complied with.

The Board has put in place a system of internal controls, set within a framework of a clearly defined organisational structure, with well understood lines of responsibility, delegation of authority, accountability, policies and procedures, which is supported by training, budgeting, reporting and review procedures.

A long-term business plan and an annual operating budget are prepared by management and are reviewed and approved by the Board prior to the commencement of each financial year. Monthly reporting and analysis of results against budget, risk assessment and related internal controls and forecasts are received, discussed by management and reported formally to the Board. Informal reviews take place more frequently.

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

### Remuneration Committee Report

The principal objectives of the Remuneration Committee are to review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment.

**Directors' remuneration for the financial year was as follows:**

| Name               | Salary and fees<br>£'000 | Cash bonus<br>£'000 | Other benefits<br>£'000 | 2017 Total<br>£'000 | 2016 Total<br>£'000 |
|--------------------|--------------------------|---------------------|-------------------------|---------------------|---------------------|
| C Ansell (i)       | 17                       | -                   | -                       | 17                  | 30                  |
| C M Batterham (ii) | 50                       | -                   | -                       | 50                  | 50                  |
| G L Millward (iii) | 15                       | -                   | -                       | 15                  | -                   |
| A P Moloney (iv)   | 180                      | -                   | 24                      | 204                 | 229                 |
| N B Philpot (v)    | 269                      | -                   | 50                      | 319                 | 334                 |
| P A Simmonds (vi)  | 21                       | -                   | -                       | 21                  | -                   |
| <b>Total</b>       | <b>552</b>               | <b>-</b>            | <b>74</b>               | <b>626</b>          | <b>643</b>          |

The information contained in this table has been audited.

**Notes:**

- (i) C Ansell was appointed as a Non-Executive Director on 7 July 2009 and resigned with effect from 29 September 2016.
- (ii) C M Batterham was appointed as Non-Executive Director on 15 July 2009 and further appointed as Non-Executive Chairman on 11 September 2009.
- (iii) G L Millward was appointed as a Non-Executive Director on 1 October 2016.
- (iv) Included within the other benefits paid to A P Moloney is an employer pension contribution of £22,000 (2016: £26,000). The remainder of the other benefits paid to A P Moloney primarily relate to private healthcare costs of £2,000 (2016: £2,000). A P Moloney resigned as a Director with effect from 6 May 2017.
- (v) Included within the other benefits paid to N B Philpot is an employer pension contribution of £47,000 (2016: £35,000). The amount of £3,000 (2016: £2,000) paid to N B Philpot within other benefits primarily relate to private healthcare costs.
- (vi) P A Simmonds was appointed as a Non-Executive Director on 21 July 2016.

Share options were exercised by A P Moloney during the year. Share options details are disclosed in the Director's report on page 16.

C Herbert was appointed on 2 May 2017 and therefore did not receive any remuneration during the financial year ended 31 March 2017.

### Remuneration and service contracts

The remuneration of the Executive Directors is determined by the Remuneration Committee. N Philpot has a service contracts that is terminable on twelve months' notice while C Herbert has a service contract that is terminable on nine months' notice.

Both Non-Executive Directors have service contracts terminable on six months' notice. No change has been agreed for the fees received by the Non-Executive Directors

### Bonus Arrangements

The Bonus plan adopted allowed for awards based on achievement of operating profit targets.

To deliver a maximum payment bonus award of 100% of salary, targets must be exceeded by 15%. In the year ended 31 March 2017, performance against targets resulted in no bonuses being awarded to N B Philpot and A P Moloney.

### Long-Term Incentive arrangements for Directors

In 2015 the Remuneration Committee took professional advice on long-term remuneration arrangements for Executive Directors beyond 31 December 2015. A proposal was presented to the largest Shareholders of the company in January 2016. Following discussions with these Shareholders the Company have implemented an option scheme which could issue a maximum of 2% of the share capital each year for the next 3 years to the senior managers of the business. (These options to be issued at market price and subject to performance criteria). Grants of options under this arrangement were made in March 2016 and March 2017 to a total of 34 senior management. Neither the CEO or the Group Finance Director were awarded any share options in the years ended 31 March 2016 and 31 March 2017.

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

The Remuneration Committee is currently in the process of reviewing the Company-wide remuneration policy, with a specific focus on long-term incentive provision for the senior executives and Executive Directors. Major Shareholders will be consulted, and formal shareholder approval sought in respect of any proposed new arrangements and full details will be set out in the notice of the AGM.

### Nomination Committee

The nomination committee meets at least once a year and is responsible for reviewing the size, structure and composition of the board and making recommendations to the board if it considers that any changes are required. It has a formal procedure for appointments to the board and is chaired by the Chairman.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ECKOH PLC**

We have audited the financial statements of Eckoh plc for the year ended 31 March 2017 set out on pages 25 to 68. 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 EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's *Ethical Standards for Auditors*.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

*In our opinion:*

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept 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.



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

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

12 June 2017

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

for the year ended 31 March 2017

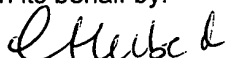
|   | Notes | 2017<br>£'000 | 2017<br>£'000 | 2016<br>£'000 | 2016<br>£'000 |
|---|-------|---------------|---------------|---------------|---------------|
| <b>Continuing operations</b>  |       |               |               |               |               |
| Revenue   | 4     |               | 29,078        |               | 22,450        |
| Cost of sales   |       |               | (8,751)       |               | (5,607)       |
| <b>Gross profit</b>   | 4     |               | 20,327        |               | 16,843        |
| Administrative expenses before expenses relating to share options schemes, acquisition costs and amortisation of acquired intangible assets         |       | (16,013)      |               | (12,702)      |               |
| Profit from operating activities before expenses relating to share option schemes, acquisition costs and amortisation of acquired intangible assets |       | 4,314         |               | 4,141         |               |
| Amortisation of acquired intangible assets  | 11    | (2,186)       |               | (1,584)       |               |
| Transactions relating to acquisitions   | 28    | (319)         |               | 500           |               |
| Expenses relating to share option schemes   |       | (24)          |               | (585)         |               |
| Total Administrative expenses   | 4     |               | (18,542)      |               | (14,371)      |
| <b>Profit from operating activities</b>   | 5     |               | 1,785         |               | 2,472         |
| Finance Charges   | 8     |               | (205)         |               | (77)          |
| Interest receivable   | 8     |               | 43            |               | 11            |
| <b>Profit before taxation</b>   |       |               | 1,623         |               | 2,406         |
| Taxation  | 9     |               | (184)         |               | (468)         |
| <b>Profit for the year</b>  |       |               | 1,439         |               | 1,938         |
| <b>Other comprehensive income</b>   |       |               |               |               |               |
| <i>Items that will be reclassified subsequently to profit or loss:</i>  |       |               |               |               |               |
| Foreign currency translation differences - foreign operations   |       |               | 316           |               | 101           |
| <b>Other comprehensive income for the year, net of income tax</b>   |       |               | 316           |               | 101           |
| <b>Total comprehensive income for the year attributable to the equity holders of the parent company</b>   |       |               | 1,755         |               | 2,039         |
| <b>Profit per share (pence)</b>   |       |               |               |               |               |
| Basic earnings per 0.25p share  | 10    |               | 0.60          |               | 0.86          |
| Diluted earnings per 0.25p share  | 10    |               | 0.56          |               | 0.77          |

**Consolidated statement of financial position**

as at 31 March 2017

|   | Notes | 2017<br>£'000   | 2016<br>£'000   |
|---|-------|-----------------|-----------------|
| <b>Assets</b>                               |       |                 |                 |
| <b>Non-current assets</b>                   |       |                 |                 |
| Intangible assets                           | 11    | 9,991           | 9,262           |
| Tangible assets                             | 12    | 5,023           | 5,376           |
| Deferred tax asset                          | 9     | 3,578           | 4,774           |
|   |       | <b>18,592</b>   | <b>19,412</b>   |
| <b>Current assets</b>                       |       |                 |                 |
| Inventories                                 | 14    | 713             | 748             |
| Trade and other receivables                 | 15    | 11,557          | 9,127           |
| Cash and cash equivalents                   | 16    | 6,083           | 6,617           |
|   |       | <b>18,353</b>   | <b>16,492</b>   |
| <b>Total assets</b>                         |       | <b>36,945</b>   | <b>35,904</b>   |
| <b>Liabilities</b>                          |       |                 |                 |
| <b>Current liabilities</b>                  |       |                 |                 |
| Trade and other payables                    | 17    | (9,155)         | (10,676)        |
| Other interest-bearing loans and borrowings | 3     | (1,300)         | (1,000)         |
|   |       | <b>(10,455)</b> | <b>(11,676)</b> |
| <b>Non-current liabilities</b>              |       |                 |                 |
| Other interest-bearing loans and borrowings | 3     | (4,550)         | (3,750)         |
| Contingent consideration                    | 27    | (975)           | -               |
| Deferred tax liability                      | 9     | (1,238)         | (1,633)         |
|   |       | <b>(6,763)</b>  | <b>(5,383)</b>  |
| <b>Net assets</b>                           |       | <b>19,727</b>   | <b>18,845</b>   |
| <b>Shareholders' equity</b>                 |       |                 |                 |
| Share capital                               | 18    | 611             | 600             |
| ESOP Reserve                                |       | (83)            | (17)            |
| Capital redemption reserve                  |       | 198             | 198             |
| Share premium                               |       | 2,660           | 2,612           |
| Merger reserve                              |       | 2,697           | 2,353           |
| Currency reserve                            |       | 472             | 157             |
| Retained earnings                           |       | 13,172          | 12,942          |
| <b>Total shareholders' equity</b>           |       | <b>19,727</b>   | <b>18,845</b>   |

The financial statements were approved by the Board of Directors on 12<sup>th</sup> June 2017 and signed on its behalf by:



C Herbert  
Chief Financial Officer

Company Registration Number 3435822

**Consolidated statement of changes in equity**  
as at 31 March 2017

|  | Share capital | ESOP reserve | Capital redemption reserve | Share premium | Merger reserve | Retained earnings | Currency reserve | Total shareholders' equity |
|--|---------------|--------------|----------------------------|---------------|----------------|-------------------|------------------|----------------------------|
|  | £'000         | £'000        | £'000                      | £'000         | £'000          | £'000             | £'000            | £'000                      |
| Balance at 1 April 2015                              | 558           | (135)        | 198                        | 2,561         | 1,081          | 12,581            | 56               | 16,900                     |
| <b>Total comprehensive income</b>                    |               |              |                            |               |                |                   |                  |                            |
| Profit   | -             | -            | -                          | -             | -              | 1,938             | -                | 1,938                      |
| Retranslation  | -             | -            | -                          | -             | -              | -                 | 101              | 101                        |
| <b>Total comprehensive income</b>                    | -             | -            | -                          | -             | -              | <b>1,938</b>      | <b>101</b>       | <b>2,039</b>               |
| <b>Transactions with owners of the Company</b>       |               |              |                            |               |                |                   |                  |                            |
| <b>Contributions and distributions</b>               |               |              |                            |               |                |                   |                  |                            |
| Dividends paid in the year                           | -             | -            | -                          | -             | -              | (826)             | -                | (826)                      |
| Shares issued on acquisition of PSS Inc              | 7             | -            | -                          | -             | 1,272          | -                 | -                | 1,279                      |
| Shares transacted through Employee Benefit Trust     | -             | 118          | -                          | 29            | -              | (116)             | -                | 31                         |
| Shares issued under the share option schemes         | 35            | -            | -                          | 22            | -              | -                 | -                | 57                         |
| Share based payment charge                           | -             | -            | -                          | -             | -              | (1,078)           | -                | (1,078)                    |
| Deferred tax on share options                        | -             | -            | -                          | -             | -              | 443               | -                | 443                        |
| <b>Total contributions and distributions</b>         | <b>42</b>     | <b>118</b>   | <b>-</b>                   | <b>51</b>     | <b>1,272</b>   | <b>(1,577)</b>    | <b>-</b>         | <b>(94)</b>                |
| <b>Total transactions with owners of the Company</b> | <b>42</b>     | <b>118</b>   | <b>-</b>                   | <b>51</b>     | <b>1,272</b>   | <b>(1,577)</b>    | <b>-</b>         | <b>(94)</b>                |
| <b>Balance at 31 March 2016</b>                      | <b>600</b>    | <b>(17)</b>  | <b>198</b>                 | <b>2,612</b>  | <b>2,353</b>   | <b>12,942</b>     | <b>157</b>       | <b>18,845</b>              |

**Consolidated statement of changes in equity (continued)**

as at 31 March 2017

|  | Share capital<br>£'000 | ESOP reserve<br>£'000 | Capital redemption reserve<br>£'000 | Share premium<br>£'000 | Merger reserve<br>£'000 | Retained earnings<br>£'000 | Currency reserve<br>£'000 | Total shareholders' equity<br>£'000 |
|--|------------------------|-----------------------|-------------------------------------|------------------------|-------------------------|----------------------------|---------------------------|-------------------------------------|
| Balance at 1 April 2016                              | 600                    | (17)                  | 198                                 | 2,612                  | 2,353                   | 12,942                     | 157                       | 18,845                              |
| <b>Total comprehensive income</b>                    |                        |                       |                                     |                        |                         |                            |                           |                                     |
| Profit   | -                      | -                     | -                                   | -                      | -                       | 1,439                      | -                         | 1,439                               |
| Retranslation  | -                      | -                     | -                                   | -                      | -                       | -                          | 315                       | 315                                 |
| <b>Total comprehensive income</b>                    | -                      | -                     | -                                   | -                      | -                       | <b>1,439</b>               | <b>315</b>                | <b>1,754</b>                        |
| <b>Transactions with owners of the Company</b>       |                        |                       |                                     |                        |                         |                            |                           |                                     |
| <b>Contributions and distributions</b>               |                        |                       |                                     |                        |                         |                            |                           |                                     |
| Dividends paid in the year                           | -                      | -                     | -                                   | -                      | -                       | (1,084)                    | -                         | (1,084)                             |
| Shares issued on acquisition of Klick2Contact EU Ltd | 2                      | -                     | -                                   | -                      | 344                     | -                          | -                         | 346                                 |
| Shares transacted through Employee Benefit Trust     | -                      | 16                    | -                                   | 5                      | -                       | (14)                       | -                         | 7                                   |
| Purchase of own shares                               | -                      | (82)                  | -                                   | -                      | -                       | -                          | -                         | (82)                                |
| Shares issued under the share option schemes         | 9                      | -                     | -                                   | 43                     | -                       | -                          | -                         | 52                                  |
| Share based payment charge                           | -                      | -                     | -                                   | -                      | -                       | 132                        | -                         | 132                                 |
| Deferred tax on share options                        | -                      | -                     | -                                   | -                      | -                       | (243)                      | -                         | (243)                               |
| <b>Total contributions and distributions</b>         | <b>11</b>              | <b>(66)</b>           | <b>-</b>                            | <b>48</b>              | <b>344</b>              | <b>(1,209)</b>             | <b>-</b>                  | <b>(872)</b>                        |
| <b>Total transactions with owners of the Company</b> | <b>11</b>              | <b>(66)</b>           | <b>-</b>                            | <b>48</b>              | <b>344</b>              | <b>(1,209)</b>             | <b>-</b>                  | <b>(872)</b>                        |
| <b>Balance at 31 March 2017</b>                      | <b>611</b>             | <b>(83)</b>           | <b>198</b>                          | <b>2,660</b>           | <b>2,697</b>            | <b>13,172</b>              | <b>472</b>                | <b>19,727</b>                       |

**Consolidated statement of cash flows**  
for the year ended 31 March 2017

|   | Notes     | 2017<br>£'000  | 2016<br>£'000  |
|---|-----------|----------------|----------------|
| <b>Cash flows from operating activities</b>               |           |                |                |
| Cash generated in operations                              | 24        | 2,475          | 5,227          |
| Taxation  |           | (263)          | (53)           |
| <b>Net cash generated in operating activities</b>         |           | <b>2,212</b>   | <b>5,174</b>   |
| <b>Cash flows from investing activities</b>               |           |                |                |
| Purchase of property, plant and equipment                 | 12        | (598)          | (927)          |
| Purchases of intangible fixed assets                      | 11        | (200)          | (537)          |
| Proceeds from sale of intangible fixed assets             | 11        | 18             | -              |
| Interest paid   | 8         | (142)          | (77)           |
| Interest received   | 8         | 43             | 11             |
| Acquisition of subsidiary, net of cash acquired           | 27        | (1,860)        | (2,717)        |
| <b>Net cash utilised in investing activities</b>          |           | <b>(2,739)</b> | <b>(4,247)</b> |
| <b>Cash flows from financing activities</b>               |           |                |                |
| Dividends paid  |           | (1,084)        | (826)          |
| Proceeds from new loan                                    |           | 6,500          | 5,000          |
| Repayment of borrowings                                   |           | (5,400)        | (2,991)        |
| Purchase of own shares                                    |           | (82)           | -              |
| Issue of shares   |           | 52             | 57             |
| Shares acquired/sold by Employee Benefit Trust            |           | 7              | 31             |
| <b>Net cash generated in financing activities</b>         |           | <b>(7)</b>     | <b>1,271</b>   |
| <b>(Decrease)/ increase in cash and cash equivalents</b>  |           | <b>(534)</b>   | <b>2,198</b>   |
| Cash and cash equivalents at the start of the period      | 16        | 6,617          | 4,419          |
| <b>Cash and cash equivalents at the end of the period</b> | <b>16</b> | <b>6,083</b>   | <b>6,617</b>   |

The notes on pages 32 to 61 form an integral part of these financial statements.

## Notes to the Financial Statements for the year ended 31 March 2017

### 1. Basis of Preparation

The Consolidated Financial Statements of Eckoh plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("endorsed IFRS"). These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at 31 March 2017 as endorsed by the EU.

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

#### Effective for the year ending 31 March 2018

- IAS 16 and IAS 38 Amendments relating to Clarification of Acceptable Methods of Depreciation and Amortisation.
- IAS 27 Amendments relating to Equity Method in Separate Financial Statements.
- IFRS 10 and IAS 28 Amendments relating to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- IFRS 11 Amendments relating to Acquisitions of Interests in Joint Operations.

#### Effective for the year ending 31 March 2019

- IFRS 15 Revenue from Contracts with Customers (IFRS 15).
- IFRS 9 Financial Instruments – Finalised version, incorporating requirements for classification and measurement, impairment, general hedge
- accounting and derecognition.

#### Effective for the year ending 31 March 2020

- IFRS 16 Leases.

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

IFRS 15 *Revenue from Contracts with Customers* provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. The Group has undertaken a review of the main types of commercial arrangements used with this model and anticipates that the application of IFRS 15 will result in some costs and revenues arising from customer contracts being deferred over the term of the contract. The most significant effects identified so far are as follows:

- Revenue for set-up fees where the associated licence is recognised over time will no longer be recognised at the point of implementation, but will be deferred to later periods and recognised over the life of the contract. The costs related to the set-up will be capitalised as 'costs to fulfil a contract' and released over the contract term, thereby also deferring costs to later periods.
- Where contract modifications take place, these are currently recognised as revenue at the point the modification is delivered. Under IFRS 15 consideration will need to be given as to whether these are for services that are distinct from the original contract. Where they are treated as a continuation of the original contract, there may be a cumulative adjustment to revenue at the point the modification was delivered, with a portion of the modification fees over the remainder of the contract term.
- Revenue for hardware that is combined with and forms an integral part of the service provided, will no longer be recognised on delivery of the hardware, but will be deferred to later periods and recognised over the life of the contract along with the cost of the hardware.

This standard is mandatory for the accounting period beginning on 1 April 2018. The Group has initiated a project to implement IFRS 15, it is currently analysing how IFRS 15 should be implemented and the impact of the standard on both revenue and costs. The initial analysis indicates that there is likely to be a reduction of revenues in the year of implementation but will

give greater visibility to revenues in future years and a higher level of recurring revenues. At this stage of the analysis, the Group is planning to apply the standard on a fully retrospective basis, whereby for the accounting period beginning on 1 April 2018 the standard will be adopted and the prior year comparison will be restated subject to the application of one or more of the practical expedients available in the standard.

IFRS 16 *Leases* will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The full impact of the standard will be subject to further assessment.

These financial statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union ("EU") and effective at 31 March 2017.

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

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

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

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

## 2. Summary of Principal Accounting Policies

### **Critical accounting policies, estimates and judgements**

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

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

#### *Revenue Recognition (note 2)*

The Group recognises revenue on certain contracts during the period of performance prior to an invoice being raised, where work has been completed and where there is a high degree of certainty of the contract being completed, the invoice raised and cash received. In relation to Speech Solutions build fee revenue, this involves estimating a percentage completion based on the direct labour costs incurred to date as a proportion of the total estimated costs required to complete a project. Whilst these assessments are made on a recognised and consistent basis, variation in the total estimated costs derived from these assessments and estimates used by the directors could have a significant impact on the amount and timing of revenue recognised on a project.

#### *Share based payments (note 20)*

The fair value of share based payments is estimated using the methods detailed in note 21 and using certain assumptions. Both the Black Scholes and Monte Carlo valuation models have been used in determining the fair value of share based payments, with management selecting the most appropriate model for each scheme, based on the varying performance-related or market-related conditions within those specific schemes. The key assumptions around volatility, expected life and risk free rate of return are based, respectively, on historic volatility over a similar previous period, management's estimate of the average expected period to exercise, and the yield on zero-coupon UK government bonds of a term consistent with assumed option life.

#### *Deferred taxation (note 9)*

Deferred tax liabilities are recognised for all taxable temporary differences but, where there exist deductible temporary differences, judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. At 31 March 2017, the Group recognised deferred tax assets of £3.6 million, including £2.2 million in respect of tax losses and tax credits. Deferred tax assets amounting to £0.6 million were not recognised in respect of trading losses and £5.3m in respect of capital losses of which £3.8m are restricted. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from estimates.

#### *Deferred consideration for K2C (note 27)*

A portion of the overall purchase consideration for K2C is payable two years after the Acquisition date, with the amount varying according to the performance of the K2C business against certain financial criteria. Based on the forecast business cashflows at the Acquisition date, the fair value of the earn-out consideration was £912k, split 50% cash and 50% shares in Eckoh plc, as detailed in note 26. At 31 March 2017, based on the performance of K2C since acquisition and the forecast business cashflows, the forecast earn-out consideration remains at £912k.

### **Basis of consolidation**

#### **(a) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial

and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

#### **(b) Subsidiaries**

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

#### **(c) Loss of control**

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

#### **(d) Transactions eliminated on consolidation**

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

### **Intangible assets**

#### **(a) Goodwill**

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

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

**(b) Acquired intangible assets**

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

Customer relationships – 5 years  
Intellectual property – 5 years  
Trade name – 5 years

**(c) Research and development**

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

Amortisation is charged to administrative expenses in the income statement.

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

**Impairment of non-financial assets**

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

**Tangible assets**

**(a) Land and buildings**

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

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

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

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

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

Land – is not depreciated

Buildings – 25 years  
Fixtures and equipment – between 3 and 5 years  
Leasehold improvements – over the term of the lease

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

#### **Financial assets**

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

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

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

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

**(b) loans and receivables:**

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

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

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

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

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

#### **Inventories**

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

### **Trade and other receivables**

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

### **Cash and cash equivalents**

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

### **Short-term investments**

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

### **Equity**

Equity comprises the following:

**Share capital** represents the nominal value of ordinary shares.

**ESOP reserve** represents the par value of ordinary shares held by the Employee Share Ownership Plan.

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

**Share premium reserve** represents consideration for ordinary shares in excess of the nominal value.

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

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

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

### **Dividends**

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

### **Foreign currency transactions**

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

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

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling

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

### **Leases**

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

Assets held under finance leases are recognised assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

### **Provisions**

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

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

### **Employee Benefits**

#### **(a) Pensions**

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

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

#### **(c) Share-based payments**

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

The fair value of share options was measured using the more appropriate of the QCA-IRS option valuer using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is adjusted to reflect

the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold of vesting.

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

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

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

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

#### **(d) Employee Share Ownership Plan**

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

#### **Revenue recognition**

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

- The majority of revenue in the Group is derived and recognised on a transaction basis, when the Group has determined that users have accessed its services via a telephone carrier network and/or the Group's telecommunication call processing equipment connected to that network. This is measured by the minute when a user accesses our services and is billed to our customer on this basis.
- Build fee revenue is recognised on delivery and acceptance of a customer service application. In the event that work on a project which results in a build fee has commenced but not completed within an accounting period, revenue is recognised in line with the percentage that the project is complete at the end of the accounting period. The percentage of completion is calculated by taking the costs incurred on the project at the end of an accounting period and expressing that as a percentage of the total estimated costs that are anticipated to be incurred in order to complete the project.

- The revenue derived from the sale of hardware is recognised when the risks and rewards of ownership are passed to the customer.
- In the event that multiple revenue sources are included in the same contract, each component part is separately fair valued and individual component revenues are recognised when the revenue recognition criteria for that component has been met. Neither build fee or support and maintenance revenue are considered to be a significant proportion of the overall revenue, and are not separately disclosed.

#### **Non-recurring items**

The Group presents as non-recurring items on the face of the income statement those material items of expenditure which, because of their nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholder to understand the elements of financial performance in the period, so as to facilitate comparison with prior periods.

#### **Finance fees**

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

#### **Taxation**

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

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

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

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

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

#### **Financial liabilities**

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

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

### **3. Financial risk management**

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

The Group's financial instruments comprise cash, short-term deposits, finance leases and various items, such as receivables and payables that arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial

instruments shall be undertaken. Similarly the Group did not undertake any financial hedging arrangements during the year under review. The year-end position reflects these policies and there have been no changes in policies or risks since the year-end.

**Liquidity risk**

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

The contractual maturities of financial liabilities are set out in note 19.

**Interest rate risk**

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

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

|  | <b>2%<br/>decrease in<br/>interest<br/>rates<br/>£'000</b> | <b>2%<br/>increase in<br/>interest<br/>rates<br/>£'000</b> |
|--|--|--|
| Impact on financial interest in the income statement:<br>(loss)/gain | (78)   | 78   |

**Foreign currency risk**

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

**Capital management**

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

Credit risk management is described in note 15.

**Financial assets**

|                                     | 2017          | 2016          |
|-------------------------------------|---------------|---------------|
|                                     | £'000         | £'000         |
| <b>Current financial assets</b>     |               |               |
| Trade receivables (note 15)         | 7,076         | 5,456         |
| Other receivables (note 15)         | 245           | 79            |
| Cash and cash equivalents (note 16) | 6,083         | 6,617         |
| <b>Total financial assets</b>       | <b>13,404</b> | <b>12,152</b> |

**Financial liabilities**

All financial liabilities held by the Group, except for contingent consideration, are measured at amortised cost and comprise trade payables of £3,173,000 (2016: £1,370,000) and other payables of £49,000 (2016: £3,000). See note 17 for further details.

**Other interest-bearing loans and borrowings**

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

|  | 2017  | 2016  |
|--|-------|-------|
|  | £'000 | £'000 |
| <b>Non-current financial liabilities</b> |       |       |
| Secured bank loans                       | 4,550 | 3,750 |
| <b>Current financial liabilities</b>     |       |       |
| Current portion of secured bank loans    | 1,300 | 1,000 |

**Terms and debt repayment schedule**

|           | Currency | Nominal<br>interest<br>rate | Maturity<br>date | Carrying<br>amount<br>2017<br>£'000 |
|-----------|----------|-----------------------------|------------------|-------------------------------------|
| Bank Loan | Sterling | 1.25% plus<br>LIBOR.        | See note<br>19   | 5,850                               |

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

**4. Segment analysis**

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

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

| <b>Current period segment analysis</b>  | <b>Eckoh UK<br/>£'000</b> | <b>Eckoh US<br/>£'000</b> | <b>K2C<br/>£'000</b> | <b>Total<br/>2017<br/>£'000</b> | <b>Total<br/>2016<br/>£'000</b> |
|---|---------------------------|---------------------------|----------------------|---------------------------------|---------------------------------|
| Segment Revenue   | 18,703                    | 9,707                     | 668                  | 29,078                          | 22,450                          |
| Gross profit  | 15,531                    | 4,194                     | 602                  | 20,327                          | 16,843                          |
| Administrative expenses before expenses relating to share options schemes, acquisition costs and amortisation of acquired intangible assets         | (11,293)                  | (4,310)                   | (410)                | (16,013)                        | (12,702)                        |
| Profit from operating activities before expenses relating to share option schemes, acquisition costs and amortisation of acquired intangible assets | 4,238                     | (116)                     | 192                  | 4,314                           | 4,141                           |
| Expenses relating to share options schemes, acquisition costs and, amortisation of acquired intangible assets                                       | (2,450)                   | (79)                      | -                    | (2,529)                         | (1,669)                         |
| <b>Operating profit</b>   | <b>1,788</b>              | <b>(195)</b>              | <b>192</b>           | <b>1,785</b>                    | <b>2,472</b>                    |
| Interest received   | 43                        | -                         | -                    | 43                              | 11                              |
| Finance charges   | (168)                     | (37)                      | -                    | (205)                           | (77)                            |
| <b>Profit before taxation</b>   | <b>1,663</b>              | <b>(232)</b>              | <b>192</b>           | <b>1,623</b>                    | <b>2,406</b>                    |
| Taxation  | (140)                     | (19)                      | (25)                 | (184)                           | (468)                           |
| <b>Profit after taxation</b>  | <b>1,523</b>              | <b>(251)</b>              | <b>167</b>           | <b>1,439</b>                    | <b>1,938</b>                    |
| <b>Segment assets</b>   |                           |                           |                      |                                 |                                 |
| Trade receivables   | 4,391                     | 2,469                     | 216                  | 7,076                           | 5,456                           |
| Deferred tax asset  | 3,519                     | 15                        | 44                   | 3,578                           | 4,774                           |
| <b>Segment liabilities</b>  |                           |                           |                      |                                 |                                 |
| Trade and other payables  | 1,904                     | 1,267                     | 51                   | 3,222                           | 1,373                           |
| <b>Capital expenditure</b>  |                           |                           |                      |                                 |                                 |
| Purchase of tangible assets   | 529                       | 56                        | 13                   | 598                             | 927                             |
| Purchase of intangible assets   | 195                       | 5                         | -                    | 200                             | 6,371                           |
| <b>Depreciation and amortisation</b>  |                           |                           |                      |                                 |                                 |
| Depreciation  | 884                       | 162                       | 13                   | 1,059                           | 799                             |
| Amortisation  | 2,598                     | 21                        | -                    | 2,619                           | 2,008                           |

In 2016/17, there was one customer that individually accounted for more than 10% of the total revenue of the continuing operations of the company (2015/16: no one customer). Revenue from the largest customer, who is a major US telecommunications company, totalled £3,354,000 which represents 11.5% of total revenue for the year.

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

|                             | Eckoh UK<br>£'000 | Eckoh US<br>£'000 | K2C<br>£'000 | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------------|-------------------|-------------------|--------------|---------------|---------------|
| <b>Revenue by geography</b> |                   |                   |              |               |               |
| UK                          | 18,441            | 56                | 650          | 19,147        | 17,714        |
| United States of America    | 8                 | 9,294             | -            | 9,302         | 3,838         |
| Rest of the World           | 254               | 357               | 18           | 629           | 898           |
| <b>Total Revenue</b>        | <b>18,703</b>     | <b>9,707</b>      | <b>668</b>   | <b>29,078</b> | <b>22,450</b> |

|   | Eckoh<br>UK<br>£'000 | Eckoh<br>US<br>£'000 | Total 2016<br>£'000 |
|---|----------------------|----------------------|---------------------|
| <b>Prior period segment analysis</b>  |                      |                      |                     |
| Segment Revenue   | 18,492               | 3,958                | 22,450              |
| Gross profit  | 15,266               | 1,577                | 16,843              |
| Administrative expenses before expenses relating to share options schemes, acquisition costs and amortisation of acquired intangible assets | (11,019)             | (1,683)              | (12,702)            |
| Adjusted operating profit / (loss)  | 4,247                | (106)                | 4,141               |
| Amortisation, acquisition costs, expenses relating to share option schemes  | (1,563)              | (106)                | (1,669)             |
| <b>Operating profit / (loss)</b>  | <b>2,684</b>         | <b>(212)</b>         | <b>2,472</b>        |
| Interest received   | 11                   | -                    | 11                  |
| Interest payable  | (77)                 | -                    | (77)                |
| <b>Profit / (loss) before taxation</b>  | <b>2,618</b>         | <b>(212)</b>         | <b>2,406</b>        |
| Taxation  | (468)                | -                    | (468)               |
| <b>Profit / (loss) after taxation</b>   | <b>2,150</b>         | <b>(212)</b>         | <b>1,938</b>        |

#### Segment assets

|                    |       |       |       |
|--------------------|-------|-------|-------|
| Trade receivables  | 3,383 | 2,073 | 5,456 |
| Deferred tax asset | 4,622 | 152   | 4,774 |

#### Segment liabilities

|                          |     |     |       |
|--------------------------|-----|-----|-------|
| Trade and other payables | 506 | 867 | 1,373 |
|--------------------------|-----|-----|-------|

#### Capital expenditure

|                               |       |    |       |
|-------------------------------|-------|----|-------|
| Purchase of tangible assets   | 878   | 49 | 927   |
| Purchase of intangible assets | 6,371 | -  | 6,371 |

#### Depreciation and amortisation

|              |       |    |       |
|--------------|-------|----|-------|
| Depreciation | 756   | 43 | 799   |
| Amortisation | 2,008 | -  | 2,008 |

|                             | Eckoh UK<br>£'000 | Eckoh US<br>£'000 | 2016<br>£'000 |
|-----------------------------|-------------------|-------------------|---------------|
| <b>Revenue by geography</b> |                   |                   |               |
| UK                          | 17,714            | -                 | 17,714        |
| United States of America    | 162               | 3,676             | 3,838         |
| Rest of the World           | 616               | 282               | 898           |
| <b>Total Revenue</b>        | <b>18,492</b>     | <b>3,958</b>      | <b>22,450</b> |

#### 5. Profit from operating activities

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>The Group's profit from operating activities is arrived at after charging:</b> |               |               |
| Employee benefits expense (note 6)  | 9,741         | 7,724         |
| Depreciation (note 12)  | 1,058         | 799           |
| Amortisation (note 11)  | 2,619         | 2,008         |
| Operating lease payments – property   | 582           | 397           |

#### 6. Employee benefits expense

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Wages and salaries                                       | 8,887         | 7,712         |
| Less: Internal development costs capitalised in the year | (120)         | (369)         |
| Amortisation of internal development costs               | 323           | 337           |
| Social security costs                                    | 395           | 1,011         |
| Pension costs  | 125           | 113           |
| Share based payments                                     | 132           | 160           |
|  | <b>9,742</b>  | <b>8,964</b>  |
| Contingent consideration treated as employee expense     | -             | (1,240)       |
|  | <b>9,742</b>  | <b>7,724</b>  |

In the year ended 31 March 2016 there was a credit of £1,240,000 relating to the employee benefit expenses on the acquisition of Veritape Limited as no further payment was expected.

The Directors' report on page 14 provides further details on the Directors' emoluments. The average number of people (including executive directors) employed by the Group during the year was:

|                               | 2017<br>Number | 2016<br>Number |
|-------------------------------|----------------|----------------|
| Technical support             | 99             | 86             |
| Customer services             | 31             | 19             |
| Administration and management | 66             | 64             |
|                               | <b>196</b>     | <b>169</b>     |

Excluded from the table above are 30 (2016: 25) full time equivalent casual call centre employees who cost £323,297 (2016: £269,269) in the year.

**7. Auditor remuneration**

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

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Fees payable for the audit of the parent company and consolidated accounts | 15            | 15            |
| Fees payable for other services:   |               |               |
| The audit of subsidiary undertakings comprising continuing operations      | 64            | 57            |
| Other tax advisory services  | -             | -             |
| Corporate financial services   | -             | 142           |
| <b>Total fees payable to the Group's auditor</b>                           | <b>79</b>     | <b>214</b>    |

**8. Interest receivable and finance charges**

|                          | 2017<br>£'000 | 2016<br>£'000 |
|--------------------------|---------------|---------------|
| Bank interest receivable | 43            | 11            |
|                          | <b>43</b>     | <b>11</b>     |

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| <b>Finance Charges</b>                         |               |               |
| Bank interest payable                          | (142)         | (77)          |
| Unwind of discount on contingent consideration | (63)          | -             |
|  | <b>(205)</b>  | <b>(77)</b>   |

**9. Taxation**

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Tax recognised in profit and loss</b>          |               |               |
| <i>Current tax expense</i>                        |               |               |
| Current year                                      | -             | 182           |
| Adjustments in respect of prior periods           | (243)         | -             |
|   | <b>(243)</b>  | <b>182</b>    |
| <i>Deferred tax credit</i>                        |               |               |
| Origination and reversal of temporary differences | 185           | 286           |
| Prior year adjustment                             | 44            | -             |
| Change in tax rates                               | 198           | -             |
|   | <b>427</b>    | <b>286</b>    |
| <b>Total tax charge</b>                           | <b>184</b>    | <b>468</b>    |

A charge of £243,000 (2016: £443,000) for deferred taxation in relation to share options was recognised directly in equity.

The tax charge for the year is different to the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| <b>Continuing operations</b>  |               |               |
| Profit for the year   | 1,439         | 1,938         |
| Total tax charge  | 184           | 468           |
| Profit excluding tax  | 1,623         | 2,406         |
| Profit multiplied by rate of corporation tax in the UK of 20% (2016: 20%) | 325           | 481           |
| Effect of expenses/ (income) not deductible for tax purposes              | 93            | (35)          |
| Adjustments in respect of prior periods (current and deferred)            | (199)         | -             |
| Share scheme relief   | -             | (38)          |
| Deferred tax not recognised   | (24)          | 5             |
| Effect of tax rate adjustment on closing recognised deferred tax balance  | (11)          | (21)          |
| Additional overseas tax   | -             | 76            |
| Tax charge for the year   | 184           | 468           |

#### Recognition of deferred tax assets and liabilities

|                                | Assets        |               | Liabilities   |               | Net           |               |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                | 2017<br>£'000 | 2016<br>£'000 | 2017<br>£'000 | 2016<br>£'000 | 2017<br>£'000 | 2016<br>£'000 |
| Capital allowances differences | 347           | 173           | -             | -             | 347           | 173           |
| Short term timing differences  | 1,011         | 1,509         | -             | -             | 1,011         | 1,509         |
| Tax losses                     | 2,220         | 3,092         | -             | -             | 2,220         | 3,092         |
| Intangible assets              | -             | -             | (1,238)       | (1,633)       | (1,238)       | (1,633)       |
| Tax losses carried forward     | 3,578         | 4,774         | (1,238)       | (1,633)       | 2,340         | 3,141         |

#### Movement in deferred tax balances during the year

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Balance at 1 April                       | 3,141         | 4,076         |
| Recognised in income statement           | (428)         | (286)         |
| Recognised in Equity                     | (243)         | 443           |
| Recognised through business combinations | (127)         | (1,095)       |
| Other                                    | (3)           | 3             |
| Balance at 31 March                      | 2,340         | 3,141         |

#### Unrecognised deferred tax assets

There are unprovided deferred taxation assets totalling £564,000 (2016: £600,000) in respect of trading losses and £5,325,000 (2016: £5,638,000) in respect of capital losses of which £3,811,000 (2016: £4,035,000) are restricted. The trading losses have not been recognised due to the uncertainty of the profits being available to utilise these.

## 10. Earnings per share

Basic earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares of 241,550,116 (2016: 224,936,496) in issue during the year ended 31 March 2017 after adjusting for shares held by the Employee Share Ownership Plan of 323,195 (2016: 9,156) and shares held in the Employee Benefit Trust of 2,392 (2016: 37,750) and the profit for the period attributable to equity holders of the parent of £1,439,000 (2016: £1,938,000).

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue, after adjusting for shares held by the Employee Share Ownership Plan, the Employee Benefit Trust and the K2C contingent consideration on the shares, is further adjusted to include the dilutive effect of potential ordinary shares. The potential ordinary shares represent share options granted to employees where the exercise price is less than the average market price of ordinary shares in the period. The total number of options in issue is disclosed in note 20. The dilutive effect of dilutive potential shares and share options outstanding at the end of the year is 15,280,951 (2016: 27,997,386).

|   | 2017<br>'000 | 2016<br>'000 |
|---|--------------|--------------|
| <b>Denominator</b>  |              |              |
| Weighted average number of shares in issue in the period        | 241,550      | 224,936      |
| Shares held by employee ownership plan                          | (323)        | (9)          |
| Shares held in Employee Benefit Trust                           | (2)          | (38)         |
| Number of shares used in calculating basic earnings per share   | 241,225      | 224,889      |
| Dilutive effect of potential shares and share options           | 15,281       | 27,997       |
| Number of shares used in calculating diluted earnings per share | 256,506      | 252,886      |

## 11. Intangible assets

| Group                                    | Goodwill<br>£'000 | Internally<br>developed<br>computer<br>software<br>£'000 | Customer<br>relationships<br>£'000 | Intellectual<br>property<br>£'000 | Trade<br>name<br>£'000 | Total<br>£'000 |
|--|-------------------|--|------------------------------------|-----------------------------------|------------------------|----------------|
| <b>Cost</b>                              |                   |  |                                    |                                   |                        |                |
| At 1 April 2015                          | -                 | 2,852  | -                                  | 6,630                             | -                      | 9,482          |
| Additions                                | 2,613             | 537  | 2,565                              | 385                               | 271                    | 6,371          |
| At 31 March 2016                         | 2,613             | 3,389  | 2,565                              | 7,015                             | 271                    | 15,853         |
| Acquired through<br>business combination | 2,025             | 372  | 691                                | -                                 | 74                     | 3,162          |
| Additions                                | -                 | 200  | -                                  | -                                 | -                      | 200            |
| Foreign exchange                         | -                 | 8  | -                                  | -                                 | -                      | 8              |
| Disposals                                | -                 | (18)   | -                                  | -                                 | -                      | (18)           |
| <b>At 31 March 2017</b>                  | <b>4,638</b>      | <b>3,951</b>   | <b>3,256</b>                       | <b>7,015</b>                      | <b>345</b>             | <b>19,205</b>  |
| <b>Amortisation</b>                      |                   |  |                                    |                                   |                        |                |
| At 1 April 2015                          | -                 | 2,253  | -                                  | 2,330                             | -                      | 4,583          |
| Charge for the year                      | -                 | 424  | 211                                | 1,352                             | 21                     | 2,008          |
| At 31 March 2016                         | -                 | 2,677  | 211                                | 3,682                             | 21                     | 6,591          |
| Charge for the year                      | -                 | 476  | 608                                | 1,471                             | 64                     | 2,619          |
| Foreign exchange                         | -                 | 4  | -                                  | -                                 | -                      | 4              |
| <b>At 31 March 2017</b>                  | <b>-</b>          | <b>3,157</b>   | <b>819</b>                         | <b>5,153</b>                      | <b>85</b>              | <b>9,214</b>   |
| <b>Carrying amount</b>                   |                   |  |                                    |                                   |                        |                |
| <b>At 31 March 2017</b>                  | <b>4,638</b>      | <b>794</b>   | <b>2,437</b>                       | <b>1,862</b>                      | <b>260</b>             | <b>9,991</b>   |
| At 31 March 2016                         | 2,613             | 712  | 2,354                              | 3,333                             | 250                    | 9,262          |

On an annual basis the impairment review of goodwill is undertaken to determine a value in use calculation for each generating unit (CGU) using cashflow projections. Goodwill is separately identifiable for PSS-UK, PSS-US and K2C. In the accounts for the year ending 31 March 2016 a profitability forecast for PSS-UK and PSS-US was carried out and used to satisfy that the carrying values of Goodwill and Other Intangible Assets were supported. Over the last 12 months PSS-UK and PSS-US have been integrated into the UK and US businesses respectively and the profits of PSS-UK and PSS-US are no longer separately identifiable. Management have identified the CGU's as Eckoh UK, Eckoh US and K2C, which was acquired in the year. Management have performed a profitability forecast for the next five years for each of the CGU's, which are based on the latest three year plan approved by the Board and modified as appropriate to reflect the latest conditions. Management are satisfied that the carrying value of Goodwill and Other Intangible Assets are supported.

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

- Eckoh – UK
- Eckoh – US
- K2C

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

|              | <b>Goodwill</b><br>31 March 2017<br>£'000 | <b>Goodwill</b><br>31 March 2016<br>£'000 | <b>Market growth</b><br>rate % <sup>1</sup> | <b>Discount</b><br>rate % |
|--------------|---|---|---|---------------------------|
| Eckoh – UK   | 348                                       | 348                                       | 5-10%                                       | 13.9%                     |
| Eckoh – US   | 2,265                                     | 2,265                                     | 10-20%                                      | 13.9%                     |
| K2C          | 2,025                                     | -   | 5-10%                                       | 15.8%                     |
| <b>Total</b> | <b>4,638</b>                              | <b>2,613</b>                              |   |                           |

1. Market growth rate for PSS-UK and PSS-US is the growth rate assumed for Eckoh UK and Eckoh US respectively.

No impairment has been recorded in the current year for PSS or K2C. The main assumptions which related to sales volume, selling prices and cost changes, are based on recent history and explanations of future changes in the market. The discount rate applied to the cash flow forecasts is based on a market participant's pre – tax weighted average cost of capital adjusted for the specific risks in the CGUs.

*Sensitivity to the changes in assumptions*

If forecast revenues fell by 10%, no impairment in the carrying values of PSS UK, PSS US and K2C would be required.

**12. Tangible assets**

|                                       | Leasehold<br>improvements<br>£'000 | Land and<br>buildings<br>£'000 | Fixtures and<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------------|------------------------------------|--------------------------------|------------------------------------|----------------|
| <b>Cost</b>                           |                                    |                                |                                    |                |
| At 1 April 2015                       | -                                  | 3,068                          | 9,324                              | 12,392         |
| Acquired through business combination | -                                  | -                              | 45                                 | 45             |
| Additions                             | -                                  | -                              | 927                                | 927            |
| Foreign exchange                      | -                                  | -                              | 16                                 | 16             |
| Disposals                             | -                                  | -                              | (100)                              | (100)          |
| <b>At 31 March 2016</b>               | <b>-</b>                           | <b>3,068</b>                   | <b>10,212</b>                      | <b>13,280</b>  |
| Additions                             | 32                                 | -                              | 566                                | 598            |
| Acquired through business combination | -                                  | -                              | 22                                 | 22             |
| Foreign exchange                      | -                                  | -                              | 137                                | 137            |
| Disposals                             | -                                  | -                              | (100)                              | (100)          |
| <b>At 31 March 2017</b>               | <b>32</b>                          | <b>3,068</b>                   | <b>10,837</b>                      | <b>13,937</b>  |
| <b>Depreciation</b>                   |                                    |                                |                                    |                |
| At 1 April 2015                       | -                                  | 10                             | 7,191                              | 7,201          |
| Charge for the year                   | -                                  | 43                             | 756                                | 799            |
| Disposals                             | -                                  | -                              | (96)                               | (96)           |
| <b>At 31 March 2016</b>               | <b>-</b>                           | <b>53</b>                      | <b>7,851</b>                       | <b>7,904</b>   |
| Charge for the year                   | 10                                 | 43                             | 1,005                              | 1,058          |
| Foreign exchange                      | -                                  | -                              | 52                                 | 52             |
| Disposals                             | -                                  | -                              | (100)                              | (100)          |
| <b>At 31 March 2017</b>               | <b>10</b>                          | <b>96</b>                      | <b>8,808</b>                       | <b>8,914</b>   |
| <b>Carrying amount</b>                |                                    |                                |                                    |                |
| <b>At 31 March 2017</b>               | <b>22</b>                          | <b>2,972</b>                   | <b>2,029</b>                       | <b>5,023</b>   |
| At 31 March 2016                      | -                                  | 3,015                          | 2,361                              | 5,376          |

**13. Investment in subsidiary undertakings**

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

| Subsidiary undertakings       | Country of<br>incorporation       | Principal activities        | Percentage of<br>share capital<br>held |
|-------------------------------|-----------------------------------|-----------------------------|--|
| Eckoh UK Limited              | England and Wales (ii)            | Speech Solutions            | 100%                                   |
| Veritape Limited              | England and Wales (ii)            | Non trading                 | 100%                                   |
| Eckoh LLC                     | United States of<br>America (iii) | Non trading                 | 100%                                   |
| Eckoh Inc                     | United States of<br>America (iv)  | Secure Payment<br>Solutions | 100% (i)                               |
| Eckoh France SAS              | France (vii)                      | Non trading                 | 100%(i)                                |
| Eckoh Enterprises Limited     | England and Wales (ii)            | Dormant                     | 67% & 33%(i)                           |
| Eckoh Projects Limited        | England and Wales (ii)            | Non trading                 | 100%                                   |
| Avorta Limited                | England and Wales (ii)            | Dormant                     | 100%(i)                                |
| Eckoh Technologies<br>Limited | England and Wales (ii)            | Dormant                     | 100%(i)                                |
| Intelliplus Group Limited     | England and Wales (ii)            | Dormant                     | 100%                                   |
| Intelliplus Limited           | England and Wales (ii)            | Non Trading                 | 100%(i)                                |
| Medius Networks Limited       | England and Wales (ii)            | Non Trading                 | 100%(i)                                |
| Telford Projects Limited      | England and Wales (ii)            | Dormant                     | 100%                                   |

|                               |                               |                               |         |
|-------------------------------|-------------------------------|-------------------------------|---------|
| Swwwoosh Limited              | England and Wales (ii)        | Dormant                       | 100%(i) |
| 365 Isle of Man Limited       | Isle of Man (v)               | Dormant                       | 100%(i) |
| Product Support Solutions Inc | United States of America (vi) | Support Solutions             | 100%    |
| Klick2Contact EU Ltd          | England and Wales (ii)        | Cloud-based Software Provider | 100%    |

- (i) Share capital held by a subsidiary undertaking.  
(ii) The registered office is Telford House, Corner Hall, Hemel Hempstead, HP3 9HN.  
(iii) The registered office is c/o National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, Delaware 19904.  
(iv) The registered office is 9900 Nicholas Street, Suite 175, Omaha, NE 68114.  
(v) The registered office is First Names House, Victoria Street, Douglas, Isle of Man, IM2 4DF.  
(vi) The registered office is 7172 Regional Street. #431, Dublin, California 94568.  
(vii) The registered office is Rue De La Vieille Poste Parc, Industriel et Technologique de la Pompignane, 34000 Montpellier.

All companies hold ordinary class shares and have March year-ends.

Information in relation to geographical operations is set out in note 4.

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

#### 14. Inventories

|                  | 2017<br>£'000 | 2016<br>£'000 |
|------------------|---------------|---------------|
| Finished goods   | 711           | 741           |
| Work in progress | 2             | 7             |
|                  | <b>713</b>    | <b>748</b>    |

#### 15. Trade and other receivables

| <b>Current</b>                                | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Trade receivables                             | 7,087         | 5,463         |
| Less: provision for impairment of receivables | (11)          | (7)           |
| Net trade receivables                         | 7,076         | 5,456         |
| Corporation tax debtor                        | 289           | -             |
| Other receivables                             | 245           | 79            |
| Prepayments and accrued income                | 3,947         | 3,592         |
|   | <b>11,557</b> | <b>9,127</b>  |

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

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

**16. Cash and cash equivalents**

|            | <b>2017</b>  | <b>2016</b>  |
|------------|--------------|--------------|
|            | <b>£'000</b> | <b>£'000</b> |
| Sterling   | 4,477        | 5,310        |
| Euro       | 161          | -            |
| US dollars | 1,445        | 1,307        |
|            | <b>6,083</b> | <b>6,617</b> |

|               | <b>2017</b>  | <b>2016</b>  |
|---------------|--------------|--------------|
|               | <b>£'000</b> | <b>£'000</b> |
| Floating rate | 4,477        | 5,310        |
| Euro          | 161          | -            |
| US dollars    | 1,445        | 1,307        |
|               | <b>6,083</b> | <b>6,617</b> |

Cash and cash equivalents comprise cash held by the Group. Surplus cash is placed in an interest bearing account. The average interest rate on the interest bearing account during the year was 0.30% (2016: 0.41%).

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

**17. Trade and other payables**

|                                    | <b>2017</b>  | 2016   |
|------------------------------------|--------------|--------|
|                                    | <b>£'000</b> | £'000  |
| Trade payables                     | <b>3,173</b> | 1,370  |
| Other payables                     | <b>49</b>    | 3      |
| Corporation tax creditor           | -            | 232    |
| Other taxation and social security | <b>1,513</b> | 4,196  |
| Accruals and deferred income       | <b>4,420</b> | 4,875  |
|                                    | <b>9,155</b> | 10,676 |

All of the amounts above are payable within one year and trade payables that are more than three months old at the year-end represent £203,780 (2016: £26,850).

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

**18. Share Capital****Allotted called up and fully paid**

| <b>Share type</b>                            | Number of<br>shares | Nominal<br>Value<br>£'000 |
|--|---------------------|---------------------------|
| Ordinary shares of 0.25p each                |                     |                           |
| At 1 April 2016                              | 239,931,326         | 600                       |
| Shares issued on acquisition of K2C          | 678,733             | 2                         |
| Shares issued under the share option schemes | 3,689,487           | 9                         |
| <b>At 31 March 2017</b>                      | <b>244,299,546</b>  | <b>611</b>                |

All ordinary shares in issue are fully paid. The holders of the ordinary shares are entitled to receive dividends, if declared, and are entitled to vote at general meetings of the Company. Potential ordinary shares are disclosed in note 20.

**19. Non-current liabilities**

|   | <b>Loans</b> | <b>Deferred</b> | <b>Total</b> |
|---|--------------|-----------------|--------------|
|   | <b>£'000</b> | <b>tax</b>      | <b>£'000</b> |
|   |              | <b>£'000</b>    |              |
| At 1 April 2016                           | 3,750        | 1,633           | 5,383        |
| Loan drawdown                             | 5,200        | -               | 5,200        |
| Acquired as part of business combinations | -            | (395)           | (395)        |
| Repaid during the year                    | (3,750)      | -               | (3,750)      |
| Reclassification to current liabilities   | (650)        | -               | (650)        |
| <b>At 31 March 2017</b>                   | <b>4,550</b> | <b>1,238</b>    | <b>5,788</b> |

### **Loans and borrowings**

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

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

### **20. Share based payments**

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

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

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

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

|  | 8 June<br>2012 | 12 June<br>2014 | 05 Dec<br>2014 | 25 March<br>2015 | 23 March<br>2016 | 31 March<br>2017 |
|--|----------------|-----------------|----------------|------------------|------------------|------------------|
| Share price (pence)                                    | 11.125         | 46.16           | 46.25          | 37.50            | 43.50            | 39.50            |
| Exercise price (pence)                                 | 11.25          | 37.5            | 46.25          | 46.5             | 43.50            | 39.50            |
| Number of employees                                    | 2              | 1               | 1              | 1                | 28               | 21               |
| Shares under option                                    | 300,000        | 500,000         | 150,000        | 500,000          | 4,100,000        | 4,000,000        |
| Vesting period (years)                                 | 3              | 3               | 3              | 3                | 3                | 3                |
| Expected volatility                                    | 40%            | 26%             | 20%            | 22%              | 32%              | 35%              |
| Option life (years)                                    | 10             | 10              | 10             | 10               | 10               | 10               |
| Expected life (years)                                  | 3              | 3               | 3              | 3                | 3                | 3                |
| Risk free rate   | 2.75%          | 1.76%           | 1.76%          | 1.76%            | 0.78%            | 0.56%            |
| Expected dividends<br>expressed as a dividend<br>yield | -              | -               | -              | -                | 0.89%            | 1.14%            |
| Fair value per option<br>(pence)                       | 3.18           | 8.89            | 6.89           | 6.08             | 9.19             | 8.84             |

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with assumed option life.

The fair value of share options granted under the Plan was measured using the Discount model. The assumptions used in the calculation are as follows:

|                          | 2 September<br>2016 |
|--------------------------|---------------------|
| Share price (pence)      | 35.0                |
| Exercise price (pence)   | 0.00                |
| Number of employees      | 49                  |
| Shares under option      | 209,706             |
| Vesting period (years)   | 3.50                |
| Annual attrition         | 0%                  |
| Discount rate            | 1.5%                |
| Years to vesting (years) | 2.92                |
| Discounted charge        | 70,278              |

A reconciliation of option movements over the year to 31 March 2017 is shown below:

|                         | 2017                          |  | 2016                          |  |
|-------------------------|-------------------------------|--|-------------------------------|--|
|                         | Number of<br>share<br>options | Weighted<br>average<br>exercise<br>price | Number of<br>share<br>options | Weighted<br>average<br>exercise<br>price |
| Outstanding at 1 April  | 20,694,299                    | 11.57                                    | 30,784,260                    | 0.85                                     |
| Granted                 | 5,209,706                     | 38.23                                    | 4,100,000                     | 43.50                                    |
| Exercised               | (3,724,845)                   | 1.54                                     | (14,189,961)                  | 0.61                                     |
| Lapsed                  | -                             | -  | -                             | -  |
| Forfeited               | (900,000)                     | 45.17                                    | -                             | -  |
| Outstanding at 31 March | 21,279,160                    | 18.43                                    | 20,694,299                    | 11.57                                    |
| Exercisable at 31 March | 11,719,454                    | 0.55                                     | 15,444,299                    | 0.79                                     |

| Range of exercise prices (pence) | Weighted average exercise price (pence) | Number of shares (000's) | 2017                            |             | Weighted average exercise price (pence) | Number of shares (000's) | 2016                            |             |
|----------------------------------|---|--------------------------|---------------------------------|-------------|---|--------------------------|---------------------------------|-------------|
|                                  |   |                          | Weighted average remaining life |             |   |                          | Weighted average remaining life |             |
|                                  |   |                          | Expected                        | Contractual |   |                          | Expected                        | Contractual |
| 0 - 0.5                          | -                                       | 11,166                   | 0.1                             | 5.8         | -                                       | 14,156                   | -                               | 6.7         |
| 4.5 - 6.5                        | 5.13                                    | 335                      | -                               | 2.9         | 5.13                                    | 335                      | -                               | 3.9         |
| 8.5 - 10.5                       | -                                       | -                        | -                               | -           | 8.75                                    | 25                       | -                               | 1.3         |
| 10.5 - 12.5                      | 11.04                                   | 428                      | -                               | 4.9         | 11.02                                   | 928                      | -                               | 5.9         |
| 37.5 - 39.5                      | 39.24                                   | 5,000                    | 2.8                             | 9.8         | 37.5                                    | 500                      | 2.0                             | 9.0         |
| 42.5 - 44.5                      | 43.50                                   | 4,200                    | 2.0                             | 9.0         | 43.5                                    | 4,100                    | 3.0                             | 10.0        |
| 44.5 - 46.5                      | 46.25                                   | 150                      | 0.7                             | 7.7         | 46.44                                   | 650                      | 1.3                             | 8.3         |

The total charge for the year relating to employee share based payment plans was £132,000 (2016: £160,000) all of which related to equity-settled share based payment transactions.

## 21. Pension commitments

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

## 22. Related party transactions

Eckoh plc is the parent and ultimate controlling company of the Eckoh Group, the Consolidated Financial Statements of which include the results of the subsidiary undertakings set out in note 13.

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

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

|                                    | 2017         | 2016       |
|------------------------------------|--------------|------------|
| Directors and other key management | £'000        | £'000      |
| Wages and salaries                 | 806          | 677        |
| Social security costs              | 235          | 95         |
| Pension costs                      | 75           | 63         |
| Share based payments               | 19           | 141        |
|                                    | <b>1,135</b> | <b>976</b> |

There are 2 directors accruing benefits under the pension scheme. The aggregate Directors' emoluments are shown in the table below.

|                      | 2017       | 2016       |
|----------------------|------------|------------|
| Directors            | £'000      | £'000      |
| Aggregate emoluments | 643        | 639        |
|                      | <b>643</b> | <b>639</b> |

During the year share options were exercised by one Director, AP Moloney. AP Moloney exercised options over 3,199,487 ordinary shares making a gain of £1,213,711. From the proceeds of the gain, AP Moloney satisfied the income tax arising from the exercise and retained 668,000 ordinary shares with a value of £267,200.

#### Rented Apartment

An apartment owned by a director, Nik Philpot is rented to Eckoh Group for use by company employees when on business. The rent is paid on a monthly basis and was charged at comparable market rates. The expense in the year was £16,920 (2016: £15,210). The amount outstanding to them at the end of the current year was £4,230 (2016: £nil). There were no amounts written off in the current or prior year.

Chris Batterham is also a director of NCC Group Security Services Limited who provide services to Eckoh Group. The amount outstanding to them at the end of the current year was £5,328 (2016: £9,240). The expense in the year was £59,933 (2016: £49,793).

### 23. Operating lease commitments

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

#### Land and buildings

|                            | 2017<br>£'000 | 2016<br>£'000 |
|----------------------------|---------------|---------------|
| Less than one year         | 209           | 516           |
| Between one and five years | 226           | 412           |
|                            | <b>435</b>    | <b>928</b>    |

The Group has an operating lease for a data centre in Heathrow, London at which some of its call processing platform is located. The term of the lease covers the period to July 2017 at a cost of £320,000 per annum.

PSS Inc had an operating lease for a New York office at a cost of £24,365 per annum which ceased in May 2016. A new lease on a New York office has been taken out from April 2016 and covers the period to March 2019 at a cost of £27,977 per annum. PSS Inc also has an operating lease for an Omaha office at a cost of £68,293 per annum, and an operating lease for a US data centre at a cost of £86,672 per annum. The lease on the office in Illinois was terminated in October 2016. The Coventry office lease was terminated in March 2017.

**24. Cash flow from operating activities**

|  | <b>2017</b>    | 2016    |
|--|----------------|---------|
|  | <b>£'000</b>   | £'000   |
| Profit after taxation  | <b>1,439</b>   | 1,938   |
| Interest income  | <b>(43)</b>    | (11)    |
| Interest payable   | <b>142</b>     | 77      |
| Taxation   | <b>184</b>     | 468     |
| Deferred tax   | <b>-</b>       | -       |
| Depreciation of property, plant and equipment                            | <b>1,058</b>   | 799     |
| Exchange differences   | <b>226</b>     | 79      |
| Amortisation of intangible assets  | <b>2,619</b>   | 2,008   |
| Share based payments   | <b>132</b>     | (1,078) |
| <b>Operating profit before changes in working capital and provisions</b> | <b>5,757</b>   | 4,280   |
| Decrease in inventories  | <b>35</b>      | 49      |
| Increase in trade and other receivables                                  | <b>(2,243)</b> | (218)   |
| Increase in trade and other payables                                     | <b>(1,074)</b> | 1,116   |
| Decrease in provisions   | <b>-</b>       | -       |
| <b>Net cash generated in operating activities</b>                        | <b>2,475</b>   | 5,227   |

**25. Contingent liability**

Contingent liabilities are potential future cash outflows, where the likelihood of payment is considered more than remote, but is considered possible. A claim of less than £0.2m has been lodged against the Group which relates to a project that has been discontinued. The Group do not believe the claim is valid and is in the process of vigorously defending. The case is at an early stage and as such no liability has been recognised in the financial statements for the year ended 31 March 2017.

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

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2017 of 0.48 pence per ordinary share be paid to the shareholders whose names appear on the register at the close of business on 29 September 2017 with payment on 27 October 2017. The ex-dividend date will be 28 September 2017. This recommendation will be put to the shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.2m.

## 27. Acquisition of Klick2Contact EU Ltd

On 20 July 2016, the Company acquired the entire issued share capital of Klick2Contact EU Ltd ("K2C"), a provider of live web help and omni-channel customer engagement services. The initial consideration comprised £2.2m of cash primarily funded by increasing the bank loan facility and £0.3m payable in ordinary shares of Eckoh plc. This has resulted in an increase in share capital and share premium of £0.3m during the period.

The Company incurred acquisition related costs of £219,000 relating to external legal fees, due diligence and valuation fees, which have been included in Administrative expenses in the Group's Consolidated Statement of Comprehensive Income.

| £000's                                 | Fair value on acquisition |
|--|---------------------------|
| Intangible assets                      | 1,156                     |
| Tangible assets                        | 22                        |
| Trade debtors                          | 180                       |
| Prepayments and accrued income         | 7                         |
| Deferred tax asset                     | 69                        |
| Deferred revenue                       | (11)                      |
| Trade creditors                        | (31)                      |
| Taxation & Social Security             | (3)                       |
| Accruals & other creditors             | (18)                      |
| Cash and cash equivalents              | 288                       |
| Deferred tax liability                 | (214)                     |
| <b>Net assets acquired</b>             | <b>1,445</b>              |
| Goodwill                               | 2,025                     |
| <b>Consideration paid</b>              | <b>3,470</b>              |
| <i>Satisfied by</i>                    |                           |
| Cash                                   | 2,212                     |
| Shares                                 | 346                       |
| Cash – contingent consideration        | 456                       |
| Shares – contingent consideration      | 456                       |
| <b>Total purchase consideration</b>    | <b>3,470</b>              |
| <i>Net cash outflow on acquisition</i> |                           |
| Cash consideration paid                | 2,148                     |
| Cash acquired                          | (288)                     |
| <b>Cash outflow on acquisition</b>     | <b>1,860</b>              |

On acquisition of K2C, all assets were fair valued and appropriate intangible assets recognised following the principles of IFRS 3. Management identified three intangible assets:

- i. **Customer relationships**  
K2C has relationships with customers that can be divided into two categories (i) Sales through reseller organisations which distribute to third party businesses; and (ii) Direct sales to business customers. These customer arrangements give rise to the requirement under IFRS 3 to recognise K2C's customer relationships as intangible assets. The fair value for this was £710,000.
- ii. **Software**  
K2C owns a suite of software products which form an 'Omni-channel' product offering, allowing companies to engage with their customers through a variety of channels. With the exception of the social media product (where K2C acts as a reseller), the IP to all software is held by the Company. The fair value of this was £372,000.

iii. **Brand**

The Company goes to market under the 'Klick2Contact' brand and we have therefore recognised a brand asset. The fair value of this was £74,000.

The acquired business contributed to revenues of £668,000 and net profit of £193,000 to the Group for the period 1 August 2016 to 31 March 2017.

If the acquisition had occurred on 1 April 2016, turnover would have been an estimated £918,000 and net profit would have been an estimated £290,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2016.

*Contingent consideration*

The company has agreed to pay additional consideration based on the performance of the K2C business against certain financial criteria in the first 24 months post-acquisition. The estimated range of the additional consideration payment is estimated to be between £1.425m and £5.65m. The Company has included £456k cash and £456k of shares as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. This has been classified as a non-current liability, on the basis that the payable date is greater than one year from the 31 March 2017. There are no ongoing service requirements relating to this contingent consideration.

*Acquired debtors*

The fair value of acquired debtors was £187k. The gross contractual amounts receivable are £218k and, at the acquisition date, £31k of contractual cash flows were not expected to be received.

**28. Transactions relating to acquisitions**

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

In the year ended 31 March 2016, the company incurred acquisition related costs of £500,000 credit to the income statement relating to external legal fees, due diligence, valuation fees and the share based payment charges relating to the acquisition of Veritape, which have been included in exceptional expenses in the Group's Consolidated Statement of Comprehensive Income. £266,000 of these costs related to the aborted projects, £474,000 were in relation to costs associated with the PSS acquisition and a credit of £1,240,000 relates to the Veritape share based payment.

**Company Financial Statements**  
**Company Balance Sheet**  
**as at 31 March 2017**

|  | Notes | 2017<br>£'000   | 2016<br>£'000   |
|--|-------|-----------------|-----------------|
| <b>Non-current assets</b>                                  |       |                 |                 |
| Investments  | ii    | 23,458          | 19,856          |
| Investment property  | iii   | 2,972           | -               |
|  |       | <b>26,430</b>   | <b>19,856</b>   |
| <b>Current assets</b>                                      |       |                 |                 |
| Trade and other receivables                                | iv    | -               | 17              |
| Cash and cash equivalents                                  |       | 2,670           | 5,093           |
|  |       | <b>2,670</b>    | <b>5,110</b>    |
| <b>Total assets</b>  |       | <b>29,100</b>   | <b>24,966</b>   |
| <b>Current liabilities</b>                                 |       |                 |                 |
| Trade and other payables                                   | v     | (10,356)        | (7,245)         |
|  |       |                 | <b>(7,245)</b>  |
| <b>Non-current liabilities</b>                             |       |                 |                 |
| Other interest-bearing loans and borrowings                | v     | (5,525)         | (3,750)         |
|  |       |                 |                 |
| <b>Total liabilities</b>                                   |       | <b>(15,881)</b> | <b>(10,995)</b> |
| <b>Net assets</b>  |       | <b>13,219</b>   | <b>13,971</b>   |
| <b>Equity attributable to equity holders of the parent</b> |       |                 |                 |
| Share capital  | vii   | 611             | 600             |
| ESOP Reserve   |       | (83)            | (17)            |
| Capital redemption reserve                                 |       | 198             | 198             |
| Share premium  |       | 2,660           | 2,612           |
| Merger reserve   |       | 2,697           | 2,353           |
| Share based payment  |       | 1,915           | 1,783           |
| Currency reserve   |       | 147             | 56              |
| Profit and loss account                                    |       | 5,074           | 6,386           |
| <b>Shareholders' funds</b>                                 |       | <b>13,219</b>   | <b>13,971</b>   |

The financial statements were approved and authorised for issue by the Board of Directors on 12<sup>th</sup> June 2017 and signed on its behalf by:

C Herbert  
*Chief Financial Officer*

*Company Registration Number 3435822*

**Statement of changes in equity**

|  | Share capital<br>£'000 | ESOP reserve<br>£'000 | Capital redemption reserve<br>£'000 | Merger reserve<br>£'000 | Share premium account<br>£'000 | Share based payment<br>£'000 | Currency reserve account<br>£'000 | Profit and loss account<br>£'000 | Total shareholders' equity<br>£'000 |
|--|------------------------|-----------------------|-------------------------------------|-------------------------|--------------------------------|------------------------------|-----------------------------------|----------------------------------|-------------------------------------|
| Balance at 1 April 2015                        | 558                    | (135)                 | 198                                 | 1,081                   | 2,561                          | 1,621                        | 33                                | 9,231                            | 15,148                              |
| <b>Total comprehensive income</b>              |                        |                       |                                     |                         |                                |                              |                                   |                                  |                                     |
| Profit for the year                            | -                      | -                     | -                                   | -                       | -                              | -                            | -                                 | (663)                            | (663)                               |
| <b>Total comprehensive income</b>              | -                      | -                     | -                                   | -                       | -                              | -                            | -                                 | <b>(663)</b>                     | <b>(663)</b>                        |
| <b>Transactions with owners of the company</b> |                        |                       |                                     |                         |                                |                              |                                   |                                  |                                     |
| <b>Contributions and distributions</b>         |                        |                       |                                     |                         |                                |                              |                                   |                                  |                                     |
| Dividends                                      | -                      | -                     | -                                   | -                       | -                              | -                            | -                                 | (826)                            | (826)                               |
| Shares issued on acquisition of PSS Inc.       | 7                      | -                     | -                                   | 1,272                   | -                              | -                            | -                                 | -                                | 1,279                               |
| Shares issued under the share option schemes   | 35                     | -                     | -                                   | -                       | 22                             | -                            | -                                 | -                                | 57                                  |
| Shares acquired by Employee Benefit Trust      | -                      | 118                   | -                                   | -                       | 29                             | -                            | -                                 | (116)                            | 31                                  |
| Currency reserve                               | -                      | -                     | -                                   | -                       | -                              | -                            | 23                                | -                                | 23                                  |
| Share option charge/(credit)                   | -                      | -                     | -                                   | -                       | -                              | 162                          | -                                 | (1,240)                          | (1,078)                             |
| <b>Total contributions and distributions</b>   | <b>42</b>              | <b>118</b>            | <b>-</b>                            | <b>1,272</b>            | <b>51</b>                      | <b>162</b>                   | <b>23</b>                         | <b>(2,182)</b>                   | <b>(514)</b>                        |
| <b>Balance at 31 March 2016</b>                | <b>600</b>             | <b>(17)</b>           | <b>198</b>                          | <b>2,353</b>            | <b>2,612</b>                   | <b>1,783</b>                 | <b>56</b>                         | <b>6,386</b>                     | <b>13,971</b>                       |

**Statement of changes in equity (continued)**

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

## **Notes to the Company's financial statements**

For the year ended 31 March 2017

### **Principal Accounting Policies**

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

#### **Basis of preparation**

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

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

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet for the purposes of the transition to FRS 101.

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

#### **Non-derivative financial instruments**

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

##### *Investments*

Investments in subsidiaries are stated at amortised cost less impairment.

##### *Cash and cash equivalents*

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

#### **Deferred taxation**

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

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be

suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

### **Non-derivative financial instruments**

#### *Interest-bearing borrowings*

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

### **Going Concern**

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

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

### **Related party transactions**

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

### **Own shares held by ESOP trust**

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

### **Share based payments**

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

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

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

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

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

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

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

#### **Dividends**

Final dividends are recorded in the financial statements in the period in which they are approved by the shareholders. Interim dividends are recognised when paid.

#### **Cash flow statement**

The cash flows of the Company are included in the Consolidated Cash Flow Statement on page 29.

#### **Investment property**

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

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

### **i. Operating expenses**

#### **Staff costs**

Details of the Directors' emoluments are given in the Directors' Report on page 15. The Director's remuneration costs are borne by a subsidiary undertaking. The Company did not incur any staff costs during the year (2016: £nil). The average number of employees employed by the company during the year was 5 (2016: 4).

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

Fees payable for the audit of the parent company and consolidated accounts of £15,000 (2016: £15,000) were borne by a subsidiary undertaking.

## ii. Fixed asset investments

|  | Shares in<br>subsidiary<br>undertakings<br>£'000 | Other<br>investments<br>£'000 | Total<br>£'000 |
|--|--|-------------------------------|----------------|
| At 1 April 2015  | 17,899   | 5,041                         | 22,940         |
| Additions  | 4,982  | (1,080)                       | 3,902          |
| At 31 March 2016                                       | 22,881   | 3,961                         | 26,842         |
| Additions  | 3,470  | 132                           | 3,602          |
| <b>At 31 March 2017</b>                                | <b>26,351</b>                                    | <b>4,093</b>                  | <b>30,444</b>  |
| <b>Impairment</b>                                      |  |                               |                |
| At 1 April 2015, 31 March 2016 and<br>At 31 March 2017 | (6,986)  | -                             | (6,986)        |
| <b>Net Book Value</b>                                  |  |                               |                |
| At 31 March 2017                                       | 19,365   | 4,093                         | 23,458         |
| At 31 March 2016                                       | 15,895   | 3,961                         | 19,856         |

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

Other investments represent additional investments in Eckoh UK Limited as a result of the share-based payments arrangements in place. As the Company grants options over its shares to employees of Eckoh UK Limited, the Company records an increase in its investment in Eckoh UK Limited, the details of which are disclosed further in note 20 of the consolidated financial statements. The disclosure of these amounts has been reclassified between categories during the year.

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

| Subsidiary undertakings       | Country of incorporation   | Principal activities          | Percentage of share capital held |
|-------------------------------|--|-------------------------------|----------------------------------|
| Eckoh UK Limited              | England and Wales (i)  | Speech Solutions              | 100%                             |
| Veritape Limited              | England and Wales (i)  | Non trading                   | 100%                             |
| Eckoh LLC                     | United States of America (ii)  | Non trading                   | 100%                             |
| Eckoh Projects Limited        | England and Wales (i)  | Non trading                   | 100%                             |
| Intelliplus Group Limited     | England and Wales (i)  | Dormant                       | 100%                             |
| Telford Projects Limited      | England and Wales (i)  | Dormant                       | 100%                             |
| Product Support Solutions Inc | United States of America (iii)   | Support Solutions             | 100%                             |
| Klick2Contact EU Ltd          | England and Wales (i)  | Cloud-based Software Provider | 100%                             |
| (i)                           | The registered office is Telford House, Corner Hall, Hemel Hempstead, HP3 9HN.                                       |                               |                                  |
| (ii)                          | The registered office is c/o National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, Delaware 19904. |                               |                                  |
| (iii)                         | The registered office is 7172 Regional Street. #431, Dublin, California 94568.                                       |                               |                                  |

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

**iii. Investment property**

|                                   | UK Office<br>£'000 | Total<br>£'000 |
|-----------------------------------|--------------------|----------------|
| <b>Cost</b>                       |                    |                |
| At 1 April 2015 and 31 March 2016 | -                  | -              |
| Transfer from Land and Buildings  | 3,068              | 3,068          |
| <b>At 31 March 2017</b>           | <b>3,068</b>       | <b>3,068</b>   |
| <b>Depreciation</b>               |                    |                |
| At 1 April 2015 and 31 March 2016 | -                  | -              |
| Charge for the year               | 11                 | 11             |
| Transfer from Land and Buildings  | 85                 | 85             |
| <b>At 31 March 2017</b>           | <b>96</b>          | <b>96</b>      |
| <b>Carrying amount</b>            |                    |                |
| <b>At 31 March 2017</b>           | <b>2,972</b>       | <b>2,972</b>   |
| At 31 March 2016                  | -                  | -              |

During the year, the company transferred ownership of its UK office from Eckoh UK to Eckoh plc. It was therefore reclassified from Land and Buildings to Investment Property.

**iv. Trade and other receivables**

|                                | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|--------------------------------|---------------------------|---------------------------|
| Prepayments and Accrued income | -                         | 17                        |
| Amounts due within one year    | -                         | 17                        |

**v. Trade and other payables**

|                                    | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|------------------------------------|---------------------------|---------------------------|
| <b>Current</b>                     |                           |                           |
| Amounts owed to group undertakings | 8,996                     | 6,199                     |
| Other creditors and accruals       | 60                        | 46                        |
| Loan due within one year           | 1,300                     | 1,000                     |
| Amounts due within one year        | 10,356                    | 7,245                     |
| <b>Non-Current</b>                 |                           |                           |
| Loan due over one year             | 4,550                     | 3,750                     |
| Contingent consideration           | 975                       | -                         |
|                                    | 5,525                     | 3,750                     |
|                                    | 15,881                    | 10,995                    |

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

**vi. Deferred taxation**

|  | <b>31 March<br/>2017<br/>£'000</b> | <b>31 March<br/>2016<br/>£'000</b> |
|--|------------------------------------|------------------------------------|
| Total unprovided deferred tax assets are as follows: |                                    |                                    |
| Tax losses available                                 | <b>1,848</b>                       | 1,960                              |
| Unprovided deferred tax asset                        | <b>1,848</b>                       | 1,960                              |

**vii. Share capital**

**Allotted, called up and fully paid**

| <b>Share type</b>                            | <b>Number of<br/>shares</b> | <b>Nominal value £'000</b> |
|--|-----------------------------|----------------------------|
| Ordinary shares of 0.25p each                |                             |                            |
| As at 1 April 2016                           | 239,931,326                 | 600                        |
| Shares issued on acquisition of K2C          | 678,733                     | 2                          |
| Shares issued under the share option schemes | 3,689,487                   | 9                          |
| <b>As at 31 March 2017</b>                   | <b>244,299,546</b>          | <b>611</b>                 |

**viii. Share options and share based payments**

Share options and share based payments are disclosed in note 20 to the consolidated financial statements.

**ix. Related party transactions**

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

**x. Events after the balance sheet date**

Post year end the Directors are recommending that a final dividend for the year ended 31 March 2017 of 0.48 pence per ordinary share be paid to the shareholders whose names appear on the register at the close of business on 29 September 2017 with payment on 27 October 2017. The ex-dividend date will be 28 September 2017. This recommendation will be put to the shareholders at the Annual General Meeting. Based on the shares in issue at the year end, this payment would amount to £1.2m.

## Shareholder information

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

### Directors and Company Secretary

C.M. Batterham – Non-executive Chairman

C.R. Ansell – Non-executive Director (resigned 29 September 2016)

G.L. Millward – Non-executive Director (appointed 1 October 2016)

P.A. Simmonds – Non-executive Director (appointed 21 July 2016)

N.B. Philpot – Chief Executive Officer

A.P. Moloney – Group Finance Director and Company Secretary (resigned 2 May 2017)

C.G. Herbert – Chief Financial Officer and Company Secretary (appointed 2 May 2017)

### Registered Office

Eckoh plc

Telford House

Corner Hall

Hemel Hempstead

Hertfordshire, HP3 9HN

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

Registered in England and Wales, Company number 3435822.

### Registrar

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent, BR3 4TU

### Nominated Advisor and Nominated Broker

Nplus1 Singer Capital Markets Limited

One Bartholomew Lane

London, EC2N 2AX

### Solicitor

Mills & Reeve LLP

Botanic House

100 Hills Road

Cambridge, CB2 1PH

### Banker

Barclays Bank plc

11 Bank Court

Hemel Hempstead

Hertfordshire, HP1 1BX

### Auditor

KPMG LLP

Altius House

One North Fourth Street

Milton Keynes, MK9 1NE