



A new way to transform business

Netcall plc

Annual Report and Accounts
for the year ended
30 June 2019

Stock code: NET

Registered no. 01812912

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WELCOME TO Netcall

Netcall is a leading provider of low-code and customer engagement solutions. By enabling customer-facing and IT talent to collaborate, Netcall takes the pain out of big change projects, helping businesses dramatically improve the customer experience, while lowering costs.

Over 600 organisations in financial services, insurance, local government and healthcare use the Netcall Liberty platform to make life easier for the people they serve.

Netcall aims to help organisations radically improve customer experience through collaborative CX.

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netcall.com

The Liberty platform

An all-in-one customer experience platform that lets you make huge, transformational changes, fast.

Liberty is a tightly integrated suite of low-code, customer engagement and contact centre solutions that lets you manage and improve your customer experience, effortlessly.



Liberty Create

Low-code – the creation of apps that drives workflows and business processes



Liberty Converse

Omnichannel contact centre – customer engagement including speech bots, callback switchboard and auto attendant.

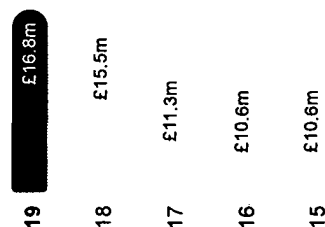


Liberty Connect

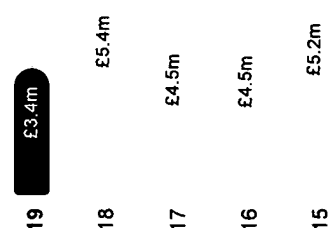
Conversational messaging platform – extend reach using digital channels like Facebook, Twitter plus AI & bots

Financial and operational highlights

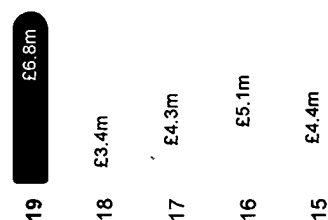
Recurring revenue



Adjusted EBITDA



Operating Cash Flow⁽⁴⁾



Financial highlights

- Revenue up 5% to £22.9m (2018: £21.9m)
- Cloud and product bookings⁽¹⁾ increased by 62% year over year to £10.5m (2018: £6.5m)
- Total annual contract value⁽²⁾ ('ACV') at 30 June 2019 up 10% year over year to £15.7m (30 June 2018: £14.2m)
- Adjusted EBITDA⁽³⁾ of £3.41m (2018: £5.42m) after increased spending on growth investment
- Profit before tax increased to £0.75m (2018: £0.05m)
- Cash generated from operations of £6.84m (2018: £2.66m)
- Group cash at 30 June 2019 was £7.77m, more than offsetting debt of £6.63m

Operational highlights

- Low-code solution main driver of customer acquisition and cross-selling with Cloud orders 260% higher at £5.8m
- Strong growth in commercial, healthcare and government sectors including two NYSE quoted professional service firms and Network Rail
- Unlocking the value of our customer base, with Low-code cross-sales to date being three times higher ACV than the current average
- Strong momentum in transition to cloud, with Cloud bookings exceeding product bookings for the first annual period

⁽¹⁾ Cloud services and product bookings are the total of all new orders received classified as cloud subscription and support, product and support contract revenues.

⁽²⁾ ACV, as of a given date, is the total of the value of each cloud and support contract divided by the total number of years of the contract.

⁽³⁾ Profit before interest, tax, depreciation and amortisation adjusted to exclude the effects of share-based payments, acquisition, impairment, contingent consideration and non-recurring transaction costs.

⁽⁴⁾ Cash generated from operations before payment of non-recurring transaction costs

Chairman's and Chief Executive's review

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Netcall continued the transition to a cloud business delivering a strong performance in our key financial metrics of Cloud services and product bookings and Annual Contract Value. This was led by significant growth in Low-code order bookings and revenues, which contributed £7.1m of Group revenues, increasing 35% in the year.

We have now reached an inflection point, with Cloud services bookings exceeding product bookings for the first full annual period. The strategy remains to invest in our Cloud offering underpinned by a highly profitable, cash generative core business.

The Group enters the new year in a healthy financial position, combining growing recurring revenues with a compelling proposition in a significant growth market.”

Henrik Bang
CEO of Netcall



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netcall.com

Introduction

We continued the transition to a high growth digital cloud operation, delivering a strong performance in our key financial metrics of Cloud services bookings and Annual Contract Value ('ACV'). In particular Low-code cloud bookings performed strongly and as a result we reached an inflection point with Cloud services bookings exceeding product bookings for the first time on an annual basis.

The addition of a Low-code offering has raised the profile of Netcall and given us access to new substantial corporate opportunities and added significant opportunity for cross-sales to our existing customers. Overall, Group performance was driven by the momentum in cloud sales and the transition to a recurring revenue model. The growth in bookings and ACV came through a combination of new customer wins and cross-sales of our expanded product suite. Low-code cloud bookings were derived from a broad range of orders, including two new cloud contracts worth a combined £2.9m with a three and four year duration respectively. In the year, our Low-code solutions represented £7.1m of Group revenues, increasing 35% in the year (FY18: £5.2m).

The business model is underpinned by our highly profitable and cash generative premise-based business. In the year we continued to see growth in our maintenance and support revenues despite a decline in product sales as customers increasingly adopt recurring models. The profits and cash generation provided us with the ability to accelerate investment to benefit from the growing demand we are experiencing and provide a more compelling and differentiated proposition.

Current trading and outlook

We have entered the new financial year with a strong sales pipeline, growing recurring revenue base and have secured significant new customer wins. The Board continues to monitor

the potential impact of the political environment and business confidence on the timing of larger enterprise and product sale contracts. With a healthy financial position and continuing investment in our business and people, the Board remains confident in the prospects of the Group.

Business Review

The ongoing shifts in consumer demand and expectations when interacting with organisations significantly changes the requirements on how organisations are expected to engage with their customers. At the same time technological advances enable an unprecedented digitalisation of business operations. Together, these megatrends pose both great opportunities and risks for businesses.

Many enterprises are struggling to address these changes. They are challenged by inflexible legacy systems which are disruptive and expensive to change; undocumented and shadow processes; and a lack of resources. This leads to IT teams maintaining key existing systems and not addressing the chronic problems of poor customer experience or being able to capitalise on the improvements and savings from digitalisation.

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

We achieve this by delivering powerful and intuitive software that addresses the core elements of best-in-class customer experience and digital process automation. Our industry leading Liberty platform is a suite of Low-code, customer engagement and contact centre solutions, which empowers business users and IT developers to collaboratively develop products and systems that create a leaner, more customer-centric organisation.

Case Study

Joining legacy systems, improving CX

Network Rail is all about efficiency. Low-code enables faster improvements and therefore drives down operational costs. Staff are more time-efficient. The team wanted to take Liberty Create forward to their business partners as a significant statement, empowering ownership by different teams to drive their own projects forward.

Network Rail has centres of excellence. In roughly four months, five or six big business problems had been automated. These were being driven forward by the business users affected. Rather than becoming a problem for IT to solve, they can solve the issue themselves. Fast.

The addressable market opportunity for these solutions is large and growing rapidly.

The Group's organic growth strategy focuses on four pillars:

- growth through a land and expand model;
- expansion of our customer base;
- continued innovation and enhancement of our platform; and
- growing our partner base.

During the year we invested approximately £2m across the organisation to support our strategies. The strategic focus resulted in substantial booking growth in commercial, healthcare and government market sectors.

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

Growth through a land and expand model

Many of our customers initially purchase an entry level solution with the objective of rolling out further applications and deploying the solutions more widely to support their future customer engagement and digital transformation initiatives. This, combined with continuously enhancing our product portfolio, provides significant cross-sale and up-sale opportunities in three areas:

- Low-code solutions represent the largest opportunity as our existing customers digitise and modernise their operations enabling them to further leverage their existing Liberty estate;
- transition of our premise-based customers to cloud. This opportunity is in its infancy where we see a small and growing number of customers considering transitioning their Liberty estate to a cloud model; and
- ongoing upgrades and addition of modules to the Liberty platform as customers expand the use of the platform and we release new features and modules.

Chairman's and Chief Executive's review

Continued

Case Study

Improving citizen service and experience

The way citizens interact with councils is changing. It is more online self-service and fewer letters and phone calls. And this is happening at speed with quickly changing requirements. Therefore, looking for a tech future that it can control, Hertsmere Borough Council's challenge is to balance the requirement for new solutions while supporting ageing systems with rising costs and increasing complexity combined with resource shortages. Simply replacing old solutions with more modern point solutions involves big, costly and risk migration projections and is therefore not the answer to the challenge.

Instead the council has invested in Liberty Create, a flexible low-code solution they can shape and control around the existing systems and infrastructure, to provide council specific applications so citizens can tackle everyday tasks online. Liberty Create makes it easier for citizens to make contact with the council, it helps improve processes and build better customer experiences in a flash. These services are built by the people who really know what their citizens require. And its use will drive costs down.

To facilitate cross-sales and accelerate implementations we are also providing several pre-built applications and modules via our AppShare which supplement the existing Liberty applications used by our customers. This includes Citizen Hub which is a suite of local government business processes and citizen portals that integrate with our customer engagement solutions.

The average annual contract value of the initial Low-code cross-sales has to date been approximately three times higher than the historic average of the Netcall customer base. This gives an early indication of the potential value of Low-code sales into the existing customer base.

Cloud and product bookings from existing customers increased by 30% to £6.3m (FY18: £4.8m) driven by cross-sales of Low-code and Cloud contact centre solutions. Wins include orders worth approximately £1.4m from healthcare and government customers for our new cloud patient communication and Citizen Hub solutions.

Cumbria County Council – digital transformation programme

Cumbria County Council, a user of our contact centre solution, is also using our Low-code based Citizen Hub framework to transform services and deliver better outcomes for citizens. The council has created a team of internal builders who are developing for the council and have several live apps including

Waste Permits, Blue Badge and Skips & Scaffolding permits. The full end to end Waste Permits application took four weeks to launch. The complete Blue Badge application, including integrations was launched after fourteen weeks. The council is one of several customers who are active in our Community and use AppShare to upload and download content achieving results faster and helping others.

Expansion of our customer base

We target organisations with large numbers of customers or employees and, in many cases, subject to a high level of regulations. This includes financial services, healthcare and government sectors where we currently have a strong market presence.

Cloud and product bookings from new customers increased by 157% to £4.2m (FY18: £1.6m) driven by sales of Low-code solutions.

Network Rail: Accelerating change using Low-code

One of the new Low-code customers secured in the year was a contract with Network Rail to help drive digital transformation faster across the organisation. The key three business challenges that Network Rail faced were scalability of people and skills, business demand pressure, and poor experience versus the cost of updating or replacing legacy IT. Key criteria for Network Rail were proof that the IT could actually deliver results and that the technology could stand up in such a safety critical organisation. In just a few months a number of business problems had been automated and driven forward by the business users affected. Rather than becoming a problem for IT to solve, they solved the problems themselves, quickly, using Low-code.

Continued innovation and enhancement of our platform

We continue to invest in strengthening our Liberty platform. The main focus is on expanding the functionality available to our customers and enhancing integration of our solutions.

Our Liberty platform/suite covers three integrated solution areas:

- Low-code which enables the creation of apps that drives workflows and business processes with integration to our communication services as well as back-end systems.
- Omnichannel contact centre for customer engagement which also includes solutions like speech bots, switchboard and auto attendant.
- Conversational messaging platform enabling customers to extend their reach using digital channels like Facebook Messenger and Twitter as well as benefit from bots and automation.

Digital business processes implemented on the Group's Low-code platform can seamlessly drive customer journeys with integrated customer interactions such as Facebook, Twitter, bots, chat, SMS or contact centre. With the platform's rich API capabilities these journeys can integrate with other systems, holding information required to deliver a smooth experience for customers and thereby retrieving or updating data critical for record management and back-end systems.

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It's amazing, it's so agile. Within weeks you have something tangible that you can test, use and iterate in real time.”

Growing our partner base

During the year, we have increased our engagement with several partners including global organisations that provide opportunity to access new markets and scale our business opportunity faster. The objective is to develop an ecosystem of partners who bring a combination of industry specific subject matter expertise together with service delivery and support capabilities. In addition to supporting our delivery of customer projects, partners support new customer acquisition by leveraging their capabilities and relationships. This will scale our ability to deliver solutions and generate additional licence revenue as partners support customers. Partners can also gain significant advantages by using the speed and flexibility of our Low-code platform by rapidly building solutions for their customers and thereby creating new revenues for their businesses.

We have seen expansion of our partner network in the year, which combined now employ more trained Low-code builders than we have within our own organisation.

Partner development of regulated process application within pharma industry

One example is an international life science consultancy which is using a Low-code based business process solution to manage regulatory submissions on behalf of its global customer. The solution is being built by an India-based partner and will deliver a specialised business process application integrated with the healthcare provider's pharma CRM system. The solution, built in less than 12 weeks, streamlines and automates a complex and highly regulated business process providing higher visibility and cost savings for both organisations. The partner believes the application can be replicated for other opportunities within the pharma sector.

Financial Review

Group revenue increased 5% to £22.9m (FY18: £21.9m) of which Low-code solutions now represent £7.1m of Group revenues, increasing 35% in the year.

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

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

Chairman's and Chief Executive's review

Continued

As set out in this year's Interim Report, the Board has, for a number of years, measured trading performance using indicators such as: revenue, EBITDA, and operating cash flow. In addition, the Group also reports Cloud and product bookings and ACV. These metrics measure sales momentum and give a leading indicator on future revenue.

Cloud and product bookings (the total of all new orders received classified as cloud services subscription and support, product and support contract revenues) increased by 62% year over year to £10.5m, of which Low-code rose 272% to £6.0m.

As a result, revenue from Cloud services, which are a key strategic focus, have grown strongly and increased by 34% to £5.74m (FY18: £4.29m).

Total Low-code ACV as at 30 June 2019 increased by 36% year over year to £4.5m (30 June 18: £3.3m). In the two years of acquisition of the Low-code platform the Group has increased the Low-code ACV by 59%.

Total ACV increased by 10% year over year to £15.7m (30 June 2018: £14.2m). ACV, as of a given date, is the total of the value of each cloud and support contract divided by the total number of years of the contract.

Product support contract revenue increased by 4% to £9.25m (FY18: £8.93m) reflecting high contract retention combined with the contribution of new product sales and price rises.

Communications services revenue was £1.81m (FY18: £2.27m) due to lower usage of call-back services in the period by a partner.

Product sales, while improved over the first half of the year, were impacted by purchasing delays within the NHS coupled with public sector customers ordering the Group's newly launched Low-code cloud offerings. As a result, product revenue was lower at £2.29m (FY18: £3.06m).

Professional services revenues increased 15% to £3.82m (FY18: £3.33m) due to implementation services increasing in line with new sales of cloud solutions.

Gross profit margin was maintained at 90% (FY18: 90%).

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition related items increased to £17.1m (FY18: £14.3m) which is in line with expectations following the previously

announced investment programme. Investments have mainly been made in expanding sales and marketing and professional services teams to deliver implementation services for the growing cloud solutions and our own digital business operation to support a larger and growing organisation.

Consequently, the Group adjusted EBITDA was £3.41m (FY18: £5.42m), a margin of 15% of revenue (FY18: 25%).

Profit before tax increased to £0.75m (FY18: £0.05m) after taking into account acquisition related items and interest on borrowings taken out to fund the acquisition of MatsSoft in August 2017.

The Group tax charge of £0.14m (FY18: £0.09m credit) represents an underlying effective rate of tax of 10% (FY18: 3% credit) on adjusted profit before tax. The underlying effective rate of tax is lower than the headline rate of corporation tax due to deductions for R&D expenditure.

Diluted earnings per share increased by 355% to 0.41 pence (FY18: 0.09 pence) and was 0.76 pence on an adjusted basis (FY18: 2.04 pence).

Cash generated from operations before non-recurring transaction cost payments increased by 100% to £6.84m (FY18: £3.42m), a conversion of 200% (FY18: 63%) of adjusted EBITDA. The increase is primarily due to the timing of credit sales and significant MatsSoft contract renewals falling in the period before acquisition which created large receivables in the prior year paid in the current year.

Spending on research and development, including capitalised software development, was £3.21m (FY18: £3.66m) of which capitalised software expenditure was £1.53m (FY18: £1.76m).

Total capital expenditure was £2.96m (FY18: £2.07m); the balance after capitalised development, being £1.43m (FY18: £0.31m) was mainly office fit-out, IT equipment and software.

The Company acquired MatsSoft Limited in August 2017. The purchase agreement provided for potential further cash and shares to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. During the period the Company paid £0.59m in cash under this arrangement. At 30 June 2019 the fair value of the remaining contingent consideration was re-estimated at a lower amount of £1.68m resulting in £0.87m being credited to the income statement as a change in estimate.

To support the acquisition, the Company issued a £7m Loan Note. Loan Note interest payments in the period totalled £0.59m (FY18: £0.36m). See note 7 for further information.

As a result of these factors, net cash was £1.14m at 30 June 2019 (30 June 2018: £0.74m net debt).

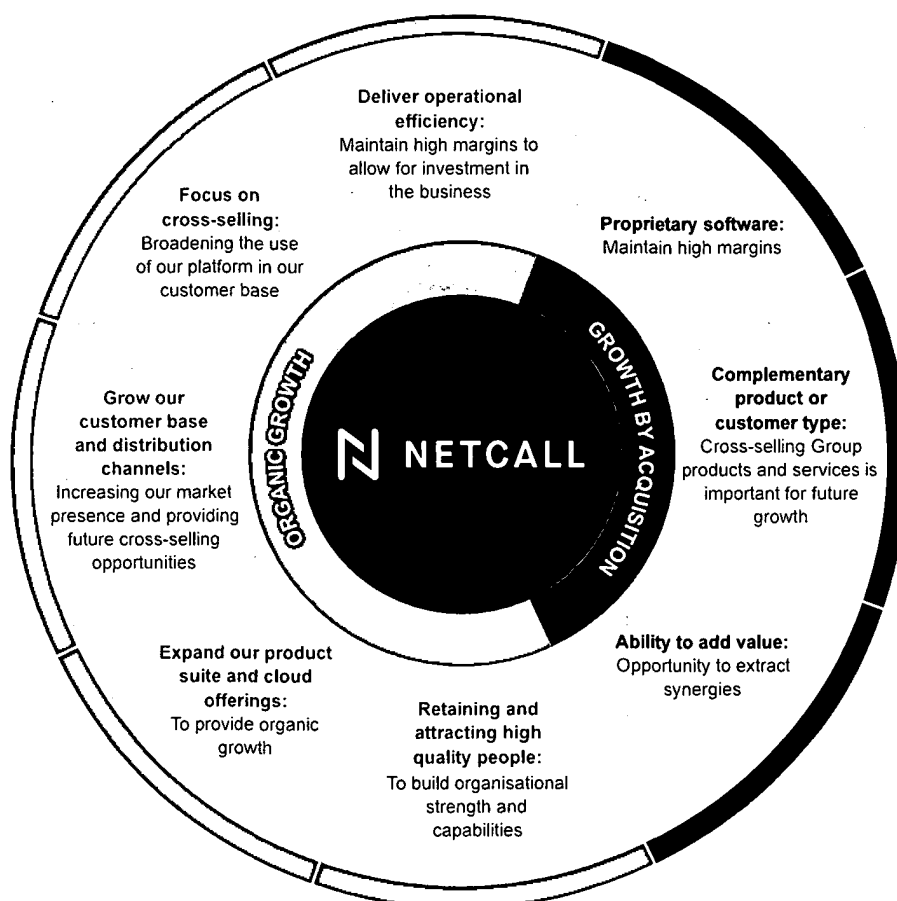
Dividend

In line with the Company's dividend policy to pay out 25% of adjusted earnings per share, the Board intends to declare a final dividend for this financial year of 0.20p.

Henrik Bang
CEO of Netcall

Business model

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



Key performance indicators

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

	2019	2018	Change
Revenue (£m)	22.9	21.9	5%
Revenue recurring in nature (£m)	16.8	15.5	8%
Gross profit margin (%)	90%	90%	–
Adjusted EBITDA (£m)	3.41	5.42	-37%
Cash generated from operations before payment of non-recurring transaction costs (£m)	6.84	3.42	100%
Total equity (£m)	21.9	21.5	2%

Principal risks and uncertainties

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

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

This Strategic Report was approved by the Board on 24 September 2019 and signed on its behalf by:

James Ormondroyd
Director
24 September 2019



Directors' report

The Directors present their report and the audited financial statements of Netcall plc (the 'Company' or 'Netcall') and its subsidiaries (together the 'Group') for the year ended 30 June 2019.

Results and dividends

The Group's profit for the year after tax was £0.61m (2018: £0.14m).

Subject to shareholder approval at the Annual General Meeting to be held on 21 November 2019, the Board proposes paying a final ordinary dividend of 0.20 pence per share (2018: 0.53 pence per share). The estimated amount payable is £0.29m (2018: £0.76m).

Research and development

The Group continues an active programme of research and development into telecoms software and products. The total expenditure for research and development excluding amortisation was £3.21m (2018: £3.66m) comprising £1.68m in the Consolidated income statement (2018: £1.90m) and £1.53m capitalised development expenditure (2018: £1.76m).

Political donations and political expenditure

In accordance with the Board's policy no political donations were made or expenditure incurred during the year (2018: £nil).

Post balance sheet events

For details of post balance sheet events see note 16 to the consolidated financial statements.

Directors and Directors' interests

The Directors who held office during the year ended 30 June 2019 are as follows:

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

Biographical details of persons currently serving as Directors are set out on page 14.

Directors' remuneration

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

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

Group's needs, individual responsibilities, performance and market practice.

The main components of Executive Directors' remuneration comprise:

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

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

The Executive Directors participate in a bonus plan linked to the achievement of financial and individual performance targets set by the Remuneration Committee. The bonus plan is structured so as to pay 100% of salary for Henrik Bang and James Ormondroyd, respectively, on achieving targets. Bonuses payable are subject to the discretion of the Remuneration Committee after taking into account an overall view of the Group's performances and its assessment of financial and personal performance. In the year ended 30 June 2019, performance against targets resulted in a bonus award of 25% of salary for Henrik Bang and 25% for James Ormondroyd.

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

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

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

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

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

	Salary and fees £000	Benefits in kind £000	Bonus £000	2019 Total £000	2018 Total £000
Executive Directors					
Henrik Bang	292	19	73	384	344
James Ormondroyd	211	17	50	278	249
Non-Executive Directors					
Michael Jackson	57	–	–	57	55
Michael Neville	35	–	–	35	32
	595	36	123	754	680

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

	2019 £000	2018 £000
Executive Directors		
Henrik Bang	22	21
James Ormondroyd	10	10
	32	31

The table below sets out share options granted to Directors:

Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	Number at 1 July 2018 and 30 June 2019
Henrik Bang				
29.04.14 ⁽¹⁾	30.04.17	30.04.21	5.0	7,000,000
				7,000,000
James Ormondroyd				
29.04.14 ⁽¹⁾	30.04.17	30.04.21	5.0	4,100,000
Michael Jackson				
29.04.14 ⁽¹⁾	30.04.17	30.04.21	5.0	1,000,000
				12,100,000

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

The closing mid-market price of the Company's shares at 30 June 2019 was 36.5 pence. During the financial year the share price reached a high of 76.5 pence and a low of 27.3 pence.

Directors' indemnity and insurance

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

On the 25 April 2019 Netcall plc (the 'Company') entered into deeds of indemnity ('Deeds') with each of Michael Jackson, Michael Neville, Henrik Bang and James Ormondroyd, comprising all the Directors of the Company. These indemnities, to the extent permitted by law, indemnify each such Director in respect of all liabilities to third parties arising out of, or in connection with, the execution of his powers, duties and responsibilities, as a Director of the Company or any Group company in which, from time to time, the individual Director holds office. The Deed is a 'Qualifying Third Party Provision' as defined in section 234 of the Companies Act 2006 and is believed to conform to the laws of the state of Delaware in the United States of America ('US') in which the Company's US subsidiaries are incorporated. A copy of each Deed is available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

Directors' report

Continued

Corporate governance

The Company's statement on corporate governance can be found in the corporate governance statement on pages 15 to 20 of this annual report.

Employees

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

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

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

Policy and practice on payment of creditors

The Group recognises the importance of good relationships with its suppliers and subcontractors. Although the Group does not follow any particular code or standard on payment practice, its established payment policy is to agree payment terms in advance of any commitment being entered into and to seek to abide by these agreed terms provided that the supplier has also complied with them. Trade creditor days for the Company for the year were 10 days (2018: 22 days).

Financial instruments

Financial instruments, including financial risk management objectives and policies for hedging, exposure to market risk, credit risk and liquidity risk, are disclosed in note 12 to the consolidated financial statements.

Share capital

Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 9(a) to the consolidated financial statements.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. At the date of this report and at 30 June 2019 the share capital of the Company consisted of 143,307,102 issued and fully paid ordinary shares with a nominal value of 5p per share, quoted on AIM, together with 1,869,181 ordinary 5p shares held in Treasury.

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

Details of share option schemes are set out in note 18 to the consolidated financial statements.

Auditors

Grant Thornton UK LLP, who were re-appointed on 12 December 2018, have expressed their willingness to continue in office as Auditors and a resolution to appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the offices of TaylorWessing LLP, 5 New Street Square, London, EC4A 3TW on 21 November 2019 at 10.30 am. Details and an explanation of the resolutions to be proposed are contained in the Notice of Annual General Meeting and explanatory notes either sent to Shareholders with the annual report or available on the Company's website, www.netcall.com.

By order of the Board

James Ormondroyd
Director

24 September 2019



Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'.

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

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

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's 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 relevant audit information and to establish that the Auditors are aware of that information.

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

Directors and advisers

Chairman

Michael Jackson*^~(69)

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

Chief Executive Officer

Henrik Bang (61)

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

Group Finance Director

James Ormondroyd (47)

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

Non-Executive Director

Michael Neville*^~ (65)

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

* denotes membership of the Audit subcommittee of the Board

^ denotes membership of the Remuneration subcommittee of the Board

~ denotes membership of the Nomination subcommittee of the Board

Company registration number:

01812912

Registered office:

1st Floor
Building 2
Peoplebuilding Estate
Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 4NW

Directors:

M Jackson
H Bang
J Ormondroyd
M Neville

Secretary:

M Greensmith

Bankers:

Lloyds Bank plc
Endeavour House
Chivers Way
Histon
Cambridge
CB24 9ZR

Nominated advisers:

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

Registrars:

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

Solicitors:

TaylorWessing LLP
5 New Street Square
London
EC4A 3TW
Orme & Slade Limited
NatWest Bank Chambers,
The Homend
Ledbury
Herefordshire
HR8 1AB

Auditors:

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

Corporate governance statement

Introduction

I am pleased to present to you this year's Corporate governance statement.

In accordance with the London Stock Exchange amended AIM Rules for Companies ('AIM Rules') the Board has chosen to apply the Quoted Companies Alliance's (QCA) Corporate Governance Code 2018 (the 'QCA Code'). The Board chose to apply this code as it believes that it is more suitable for small and mid-size companies.

The QCA Code includes ten governance principles and a set of disclosures. The Board has considered how we apply each principle to the extent appropriate. Below we provide an explanation of the approach taken in relation to each and also any areas where we do not comply with the QCA code.

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

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

We achieve this by developing powerful and intuitive software that addresses the core elements of best-in-class customer experience. Our industry leading Liberty platform is a tightly integrated suite of Low-code, customer engagement and contact centre solutions.

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

Our key strategies are to:

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

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

The key challenges being addressed within the strategic framework include:

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

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

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

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

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

Corporate governance statement

Continued

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

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success

The long-term success of the Group relies upon good relations with a range of different stakeholders including our staff, customers, suppliers and shareholders. We engage with these stakeholders to obtain feedback as follows:

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

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

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

- **Company management:** The Board has put in place a system of internal controls, set within a clearly defined organisational structure with well understood lines of responsibility, delegation of authority, accountability, policies and procedures. Managers assume responsibility for running day-to-day operational activities with performance regularly reviewed and employees are required to follow procedures and policies appropriate to their position within the business.
- **Business risks:** The Board is responsible for identifying, evaluating and managing all major business risks facing the Group. To facilitate the assessment of risks, monthly reports on non-financial matters are received by the Board covering such matters as sales and operations performance and research and development progress.
- **Financial management:** An annual operating budget is prepared by management and reviewed and approved by the Board. Monthly accounts comparing current year performance with budget together with key performance metrics are received and discussed by the Board. The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions.
- **Quality management:** The Group is focused on meeting the highest levels of customer satisfaction. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.
- **Internal audit:** The Directors do not currently believe that an additional separate internal audit function is appropriate for the size and complexity of the Group but will continue to review the position. The Group is ISO9001 and ISO27001 accredited which has been independently audited.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group. They are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

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

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

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

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

Notwithstanding the above, the Non-Executive Directors have sufficient industrial and public markets experience in order to constructively challenge the Executive team and help drive value for all stakeholders. Moreover, the Board considers

that the length of service of Messrs Neville and Jackson to be a valuable asset to constructive Board discussion. There are currently no female Non-Executive Directors. The Board remains confident both that the opportunities in the Company are not excluded or limited by any diversity issues (including gender) and that the Board nevertheless contains the necessary mix of experience, skills and other personal qualities and capabilities necessary to deliver its strategy. As part of the Board's evolution the Company continues to actively seek a further Non-Executive Director.

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

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

	Board meetings		Audit Committee		Remuneration Committee		Nomination Committee	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors								
Henrik Bang	10	10	–	2 ⁽¹⁾	–	–	–	–
James Ormondroyd	10	10	–	2 ⁽¹⁾	–	–	–	–
Non-Executive Directors								
Michael Jackson	10	10	2	2	2	2	–	–
Michael Neville	10	10	2	2	2	2	–	–

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

Corporate governance statement

Continued

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

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

Michael Jackson, Non-Executive Chairman

Term of office: Appointed as Chairman on 23 March 2009; chairman of the Nomination Committee and member of the Audit and Remuneration Committees.

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

Michael Neville, Non-Executive Director

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

Background and suitability for the role: Michael Neville was appointed to the Netcall Board on 30 July 2010 following the acquisition of Telephonetics plc where he served as a Non-Executive Chairman from July 2005. He has extensive experience in capital markets and serves as a Non-Executive Director for a number of AIM quoted companies. His background is in the telecommunications, technology and media arenas.

Henrik Bang, CEO

Term of office: Appointed CEO on 13 February 2004.

Background and suitability for the role: Henrik was previously Vice President in GN Netcom 1999-2004, part of the Danish OMX listed GN Great Nordic Group. Before that he held a number of international management positions in IBM and AP Moller-Maersk Line.

James Ormondroyd, Group Finance Director

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

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

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by Shareholders. The Company's Articles require that one third of the current Directors must retire as Directors by rotation. The QCA Code recommends that independent Directors who have served for more than nine years should be re-elected on an annual basis. The Company does not follow this recommendation due to the current size of the Board and considers the experience of the Company's current Non-Executive Directors to be more than sufficient for the Company's needs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate governance statement

Continued

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

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

The matters reserved for the Board are:

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

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

Audit Committee Report

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

Remuneration Committee Report

During the period under review the Remuneration Committee:

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

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

This Corporate Governance Report is available on the Netcall website. The Board will review and update it annually. Copies of the Annual Report & Accounts, AGM notices, outcomes of AGM votes and other governance materials are available on the Netcall website.

Michael Jackson
Chairman

Independent Auditor's report to the members of Netcall plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Netcall plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2019, which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Parent Company balance sheet, Parent Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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



Overview of our audit approach

- Overall materiality: £229k, which represents 1% of the group's revenue;
- We performed full scope audit procedures on Netcall plc, Telephonetics Limited, Netcall Telecom Limited and Matssoft Limited; and
- Key audit matters were identified as
 - the risk of improper recognition of revenue due to fraud;
 - the risk of impairment of goodwill and other intangible assets; and
 - the risk of impairment of investments.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report to the members of Netcall plc

Continued

Key Audit Matter for the group	How the matter was addressed in the audit
Risk of improper recognition of revenue due to fraud Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The group has recognised revenues of £22.9m, (2018: £21.9m) in the year, which includes cloud and communication services, product support, produce and other services revenues. The group adopted International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' for the financial year ended 30 June 2019. As the group's revenue is material to the financial statements and comprises multiple revenue streams subject to different recognition policies that are an area of significant judgement, the presumed risk of improper recognition of revenue due to fraud has been identified as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: - assessing whether the revenue recognition policies adopted are in accordance with IFRS 15 and checked whether management accounted for revenue in accordance with the accounting policies, including the accounting and disclosures for the transition to the new IFRS; - assessing the application of IFRS 15 for each revenue stream and in particular whether performance obligations are distinct, should be recognised separately and whether they were recognised at an appropriate stand-alone selling price; - testing the occurrence of revenues by selecting a sample of transactions, throughout the year and agreeing the revenues to signed contracts, purchase orders, cash receipts or other supporting evidence; - testing the delivery of professional services by selecting a sample of transactions throughout the year and agreeing them to signed agreements/purchase orders and vouching to supporting documentation where appropriate such as timesheets; and - testing of revenue journals to highlight and corroborate any postings that were outside of our expectations. The group's accounting policy on revenue recognition is shown in note 20 to the financial statements and related disclosures are included in note 3. Key observations Our testing did not identify any material misstatements in the revenue recognised during the year which has been recognised in accordance with the accounting policies set out in note 20.
Risk of impairment of goodwill and other intangible assets. At 30 June 2019, the group had goodwill of £22.8m (2018: £22.8m) and other intangible assets of £6.4m (2018: £6.2m). In accordance with International Accounting Standard 36, 'Impairment of Assets', an annual impairment review is required to be performed by management for goodwill, or for other intangible assets when there is an indicator of impairment, to determine whether the carrying value of these assets is appropriate. The impairment review is based on comparing the carrying value of identified cash generating units with the forecast future revenues and profits from those units and associated assets, based on a value in use discounted cash flow model. Management's assessment of the potential impairment of goodwill and other intangible assets incorporates key assumptions including forecast revenues, growth rates, and the discount rate. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, we therefore identified the impairment of goodwill and other intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: - assessing whether the impairment accounting policy adopted is in accordance with accounting standards and checked whether management have applied it appropriately; - assessing the completeness of management's identification of impairment indicators for other intangible assets; - comparing the carrying value of cash generating units to management's value in use calculations; - checking the mathematical accuracy of the impairment models; - challenging management and checking appropriateness of the forecast growth rates to historical performance and performing sensitivity analysis; - challenging management and assessing the appropriateness of the discount rate applied to future cash flows by independently calculating an appropriate rate and applying sensitivities; and - evaluating the other assumptions included in the impairment models through, comparison with historical results, our knowledge of the business and discussions with management. Key observations Our testing did not identify any material misstatements within the impairment of goodwill or other intangible assets balances within the consolidated balance sheet.

Key Audit Matter for the group	How the matter was addressed in the audit
Risk of impairment of investment At 30 June 2019, the parent entity had investments of £38.2m (2018: £37.9m). In accordance with International Accounting Standard 36, 'Impairment of Assets', an impairment review is required to be performed by management for any assets when there is an indicator of impairment, to determine whether the carrying value of these assets is appropriate. The impairment review is based on comparing the carrying value against the forecast future revenues and profits from those investments, based on a value in use discounted cash flow model. Management's assessment of the potential impairment incorporates key assumptions including forecast revenues, growth rates, and the discount rate. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, we therefore identified the impairment of investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing whether the impairment accounting policy adopted is in accordance with accounting standards and checked whether management have applied it appropriately; • assessing the completeness of management's identification of impairment indicators for investments; • comparing the carrying value of the investment to management's calculation of the recoverable amount; • checking the mathematical accuracy of the impairment models; • checking appropriateness of the forecast growth rates to historical performance and performing sensitivity analysis; • assessing the appropriateness of the discount rate applied to future cash flows by independently calculating an appropriate rate and applying sensitivities; • evaluating the other assumptions included in the impairment models through, comparison with historical results, our knowledge of the business and discussions with management; and • comparing the carrying value of the single CGU against the market capitalisation of the business. The company's accounting policy on impairment of investments is shown in note A(c) to the financial statements. Our testing did not identify any material misstatements within the impairment calculations.

Independent Auditor's report to the members of Netcall plc

Continued

Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£229k which is 1% of group revenue. This benchmark is considered the most appropriate because the group has changed its focus and now implemented a growth investment programme meaning that EBITDA is reducing and revenue is the most stable benchmark year on year. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2018 which is a function of the increase in revenue.	£221k which is based on 1% of total assets but restricted to 96% so as not to exceed group materiality. This benchmark is considered the most appropriate because the parent entity does not generate its own earnings and acts as a holding company for the group. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2018 which is linked to the growth in group revenue, as the parent entity component materiality has been restricted.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£11k and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£11k and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

- Netcall plc has centralised processes and controls over the key areas of our audit focus. Group management are responsible for all judgemental processes and significant risk areas. All accounting is centralised and we have tailored our audit response accordingly with all audit work undertaken by the same UK based audit team. In assessing the risk of material misstatement to the group financial statements we considered the transactions undertaken by each entity and therefore where the focus of our work was required;
- We performed full scope audits of the financial information of the parent company Netcall plc, Telephonetics Limited, Netcall Telecom Limited and MatsSoft Limited; and

- A targeted approach was taken to MatsSoft Holdings and MatsSoft Inc; all other entities are insignificant to the group or dormant, so analytical procedures were conducted using group materiality.

Other information

The directors are responsible for the other information.

The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially

misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Adrian Bennett
Senior Statutory Auditor

For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

24 September 2019

Grant Thornton UK LLP

Consolidated income statement

for the year ended 30 June 2019

	Notes	2019 £000	2018 £000
Revenue	3	22,903	21,875
Cost of sales		(2,329)	(2,143)
Gross profit		20,574	19,732
Administrative expenses		(19,058)	(18,961)
Other income	5(a)	–	23
Other gains/(losses) – net	5(b)	(11)	(12)
Adjusted EBITDA		3,411	5,421
Depreciation	8(a)	(310)	(252)
Net loss on disposal of property, plant and equipment		(2)	–
Impairment charge on intangible assets	4(a)	–	(792)
Amortisation of acquired intangible assets	8(b)	(512)	(547)
Amortisation of other intangible assets	8(b)	(1,120)	(1,119)
Non-recurring transaction costs	4(b)	–	(464)
Change in fair value of contingent consideration	4(c)	865	–
Post completion services	4(d)	(244)	(464)
Share-based payments	18(c)	(583)	(1,001)
Operating profit		1,505	782
Finance income	5(f)	41	29
Finance costs	5(f)	(794)	(766)
Finance costs/ (income) – net		(753)	(737)
Profit before tax		752	45
Tax (charge)/ credit	6	(142)	91
Profit for the year		610	136
Earnings per share – pence			
Basic	19(a)	0.43	0.10
Diluted	19(a)	0.41	0.09

All activities of the Group in the current and prior period are classed as continuing. All of the profit for the period is attributable to the shareholders of Netcall plc. The notes on pages 31 to 63 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 30 June 2019

		2019	2018
	Notes	£000	Restated £000
Profit for the year		610	136
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences arising on translation of foreign operations	9(c)	(17)	(5)
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income	9(c)	–	(216)
Total other comprehensive income for the year		(17)	(221)
Total comprehensive income for the year		593	(85)

All of the comprehensive income for the year is attributable to the shareholders of Netcall plc. The notes on pages 31 to 63 form part of these financial statements.

Consolidated balance sheet

as at 30 June 2019

	Notes	2019 £000	2018 Restated £000	2017 Restated £000
Assets				
Non-current assets				
Property, plant and equipment	8(a)	1,210	445	473
Intangible assets	8(b)	29,188	28,938	11,444
Deferred tax assets	8(c)	501	584	505
Financial assets at fair value through other comprehensive income	7(c)	72	72	288
Total non-current assets		30,971	30,039	12,710
Current assets				
Inventories	8(d)	165	215	334
Other current assets	8(e)	1,314	1,077	787
Contract assets	3(c)	1,178	1,437	1,055
Trade receivables	7(a)	3,864	6,078	2,561
Other financial assets at amortised cost	7(b)	100	117	28
Current tax asset		–	–	11
Cash and cash equivalents	7(d)	7,769	5,779	12,724
Total current assets		14,390	14,703	17,500
Total assets		45,361	44,742	44,958
Liabilities				
Non-current liabilities				
Other payables	7(g)	–	925	–
Contract liabilities	3(c)	207	488	114
Borrowings	7(f)	6,632	6,518	–
Deferred tax liabilities	8(c)	851	754	294
Provisions	8(f)	77	44	112
Total non-current liabilities		7,767	8,729	530
Current liabilities				
Trade and other payables	7(e)	5,265	5,095	2,508
Contract liabilities	3(c)	10,395	9,302	6,166
Provisions	8(f)	–	128	–
Total current liabilities		15,660	14,525	8,674
Total liabilities		23,427	23,254	9,204
Net assets		21,934	21,488	21,006
Equity attributable to owners of the Parent Company				
Share capital	9(a)	7,259	7,242	7,054
Share premium	9(a)	3,015	3,015	3,015
Other equity	9(b)	4,832	4,832	2,697
Other reserves	9(c)	4,440	3,917	2,854
Retained earnings		2,388	2,482	5,386
Total equity		21,934	21,488	21,006

The notes on pages 31 to 63 form part of these financial statements. These financial statements on pages 26 to 63 were approved and authorised for issue by the Board on 24 September 2019 and were signed on its behalf by:

James Ormondroyd
Director



Netcall plc, registered no. 01812912

Consolidated statement of changes in equity

for the year ended 30 June 2019

	Notes	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2017		7,054	3,015	2,697	2,854	5,386	21,006
Issue of ordinary shares as consideration for acquisition in a business combination	9(a), 9(b)	175	–	2,135	–	–	2,310
Proceeds from share issue	9(c)	9	–	–	–	–	9
Increase in equity reserve in relation to options issued	9(c)	–	–	–	1,364	–	1,364
Tax debit relating to share options	6(d)	–	–	–	1	–	1
Reclassification following exercise or lapse of options	9(c)	4	–	–	(81)	77	–
Dividends provided for or paid	13(b)	–	–	–	–	(3,117)	(3,117)
Transactions with owners		188	–	2,135	1,284	(3,040)	567
Profit for the year		–	–	–	–	136	136
Other comprehensive income – Restated		–	–	–	(221)	–	(221)
Total comprehensive income for the year – Restated		–	–	–	(221)	136	(85)
Balance at 30 June 2018 – Restated		7,242	3,015	4,832	3,917	2,482	21,488
Proceeds from share issue	9(a)	16	–	–	–	–	16
Increase in equity reserve in relation to options issued	9(c)	–	–	–	633	–	633
Tax credit relating to share options	6(d)	–	–	–	(38)	–	(38)
Reclassification following exercise or lapse of options	9(c)	1	–	–	(55)	54	–
Dividends provided for or paid	13(b)	–	–	–	–	(758)	(758)
Transactions with owners		17	–	–	540	(704)	(147)
Profit for the year		–	–	–	–	610	610
Other comprehensive income		–	–	–	(17)	–	(17)
Total comprehensive income for the year		–	–	–	(17)	610	593
Balance at 30 June 2019		7,259	3,015	4,832	4,440	2,388	21,934

The notes on pages 31 to 63 form part of these financial statements.

Consolidated cash flow statement

for the year ended 30 June 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Profit before income tax		752	45
Adjustments for:			
Depreciation and amortisation		1,942	1,918
Impairment of intangible assets		–	792
Loss on disposal of property, plant and equipment		2	–
Share-based payments		583	1,001
Net finance costs/ (income) – net		753	737
Changes in operating assets and liabilities, net of effects from purchasing of subsidiary undertaking:			
Decrease in inventories		51	118
Decrease/ (increase) in trade receivables		2,216	(2,575)
Decrease/ (increase) in contract assets		252	(377)
Increase in other financial assets at amortised cost		24	74
Increase in other current assets		(257)	(194)
Decrease in trade and other payables		(242)	(900)
Increase in contract liabilities		862	1,675
(Decrease)/ increase in provisions		(95)	341
Cash generated from operations		6,843	2,655
Analysed as:			
Cash generated from operations before payment of non-recurring transaction costs		6,843	3,420
Non-recurring transaction costs payment	4(b)	–	(765)
Interest received		41	29
Interest paid		(4)	(7)
Income tax refunded		–	11
Net cash inflow from operating activities		6,880	2,688
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	7(g)	(591)	(10,974)
Purchase of property, plant and equipment	8(a)	(1,078)	(171)
Payment of software development costs	8(b)	(1,532)	(1,764)
Purchase of other intangible assets	8(b)	(350)	(137)
Proceeds from sale of property, plant and equipment		1	–
Net cash (outflow) from investing activities		(3,550)	(13,046)
Cash flows from financing activities			
Proceeds from issues of ordinary shares	9(a)	16	9
Proceeds from borrowings	7(f)	–	7,000
Interest paid on Loan Notes		(590)	(471)
Dividends paid to Company's shareholders	13(b)	(758)	(3,117)
Net cash (outflow)/ inflow from financing activities		(1,332)	3,421
Net increase/ (decrease) in cash and cash equivalents		1,998	(6,937)
Cash and cash equivalents at beginning of the period		5,779	12,724
Effects of exchange rate on cash and cash equivalents		(8)	(8)
Cash and cash equivalents at end of period		7,769	5,779

The notes on pages 31 to 63 form part of these financial statements.

Notes to the consolidated financial statements

1 Significant changes in the current reporting period

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

- The fair value of contingent consideration, relating to the acquisition of MatsSoft Limited, was reviewed at the year end resulting in a credit to the income statement of £0.87m (see note 4(c)).

For a detailed discussion about the Group's performance and financial position please refer to the Chairman's and Chief Executive's review on pages 2 to 7.

2 Segment information

2(a) Description of segment and principal activities

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

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

2(b) Adjusted EBITDA

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

Adjusted EBITDA reconciles to operating profit as follows:

	2019 £000	2018 £000
Adjusted EBITDA	3,411	5,421
Depreciation	(310)	(252)
Net loss on disposal of property, plant and equipment	(2)	–
Impairment charge on intangible assets	–	(792)
Amortisation of acquired intangible assets	(512)	(547)
Amortisation of other intangible assets	(1,120)	(1,119)
Non-recurring transaction costs	–	(464)
Change in fair value of contingent consideration	865	–
Post completion services	(244)	(464)
Share-based payments	(583)	(1,001)
Operating profit	1,505	782

2(c) Segment assets and liabilities

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

Notes to the consolidated financial statements

Continued

3 Revenue from contracts with customers

3(a) Revenue by category

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	2019 £000	2018 £000
Cloud services	5,741	4,295
Communication services	1,805	2,265
Product support contracts	9,253	8,929
Product	2,285	3,058
Services	3,819	3,328
	22,903	21,875
Timing of revenue recognition:		
At a point in time	4,091	5,323
Over time	18,812	16,552

3(b) Revenue by location and major customers

The business is domiciled in the UK. The result of its revenue from external customers in the UK is £21.7m (2018: £21.1m), and the total from external customers from other countries is £1.2m (2018: £0.78m).

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

3(c) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	2019 £000	2018 £000
Trade receivables	3,864	6,078
Contract assets	1,178	1,437
Contract liabilities – current	10,395	9,302
Contract liabilities – non-current	207	488

Trade receivables have decreased by £2.21m as the prior year included an atypical amount of contract billings just prior to the year-end which were then paid in the current year. Contract assets have decreased as the Group has provided fewer services ahead of the agreed payment schedules for fixed-price contracts. Contract liabilities have increased by £0.81m due to an increase in advance subscription payments due to new Cloud services contracts.

3(d) Revenue recognised in relation to contract liabilities

Set out below is the amount of revenue recognised from:

	2019 £000	2018 £000
Amounts included in contract liabilities at the beginning of the year.	9,302	6,170
Performance obligations satisfied in previous years	–	–

3(e) Unsatisfied long-term contracts

The unsatisfied performance obligations for communication services, product and professional service revenues are a part of a contract that has an original expected duration of one year or less.

The unsatisfied performance obligations for Cloud services and product support contracts as at 30 June may span a duration of more than one year, and as at 30 June are as follows:

	2019 £000	2018 £000
Within one year	11,395	9,068
More than one year	10,700	8,378

3(f) Accounting policies and significant judgements

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 on a retrospective basis. IFRS 15 replaced all existing revenue recognition requirements in IFRS and sets out a comprehensive framework for determining whether, when and how much revenue to recognise. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the requirements of IFRS 15 and the Group's previous revenue recognition policy. Accordingly, no financial restatement was required.

Revenue is recognised at the fair value of the right to the consideration received or receivable for goods sold and services provided in the normal course of business during the year. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

Critical judgements in recognising revenue and allocating the transaction price

Revenue is recognised upon transfer of control of the promised product and/or services to customers. The Group enters into contracts which can include combinations of services, products, support fees and other professional services, each of which is capable of being distinct and is usually accounted for as a separate performance obligation. Where there are multiple performance obligations, revenue is measured at the value of the expected consideration received in exchange for the products or services, allocated by the relative stand-alone selling prices of each of the performance obligations.

The Group generates revenue principally through the supply of:

- **Cloud services** – comprises the subscription and usages fees to access our software through a hosted solution. The software, maintenance and support and hosting elements are not distinct performance obligations, and represent a combined service provided to the customer. Revenue is recognised as the service is provided to the customer on a straight-line basis over the period of supply.
- **Product support contracts** – provides customers with software updates, system monitoring and tuning and technical support services. Revenues are recognised over time on a straight-line basis over the contract period.
- **Communication services** – revenues comprise fees for telephony and messaging services. Fees are recognised when the call or message has been delivered over the Group's network;
- **Product** – consists of software product license fees and hardware. Revenue for products is recognised at a point in time when the customer has control of the asset; and,
- **Services** – consists primarily of consultancy, implementation services and training. Revenue from these services is recognised as the services are performed by reference to the costs incurred as a proportion of the total estimated costs of the service project. If an arrangement includes both software license or subscriptions and service elements, an assessment is made as to whether the software element is distinct in the context of the contract, based on whether the services provided significantly modifies or customises the base product. Where it is concluded that a licence is distinct, the licence element is recognised as a separate performance obligation. In all other cases, revenue from both licence and service elements is recognised when control is deemed to have passed to the customer.

Where invoices are raised in advance of the performance obligations being satisfied, these are recorded on the balance sheet as contract liabilities. This deferred income relates predominantly to services which are recognised on a straight-line basis over the period of supply. These services are typically invoiced at the beginning of the provision of service and the associated revenue is recognised over the service period which typically ranges from one to five years.

Where Group recognition criteria have been met but no invoice to the customer has been raised at the reporting date, revenue is recognised and included as a contract asset.

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 including the comparative amounts:

- Contract assets were previously presented as part of trade and other receivables (£1.44m as at 30 June 2018; £1.06m as at 1 July 2017).
- Contract liabilities previously included in deferred income (£9.79m as at 30 June 2018; £6.28m as at 1 July 2017).

Notes to the consolidated financial statements

Continued

4 Material profit or loss items

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

	Notes	2019 £000	2018 £000
Impairment charge on intangible assets	4(a)	–	(792)
Non-recurring transaction costs	4(b)	–	(464)
Change in fair value of contingent consideration	4(c)	865	–
Post-completion services expense	4(d)	(244)	(464)
		621	(1,720)

4(a) Impairment charge on intangible assets

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

4(b) Non-recurring transaction costs

In 2017, the Parent Company expensed professional advisor fees of £0.46m in connection with the acquisition of MatsSoft Ltd. These costs are included in 'administrative expenses'. The Company paid £0.76m in 2018 in relation to these expenses and related amounts included in trade and other payables on 1 July 2017.

4(c) Change in fair value of contingent consideration

The purchase of MatsSoft Ltd included a contingent consideration arrangement based on certain performance obligations. These were initially recorded at fair value, which is the present value of the expected payments. At the year-end the estimates of achieving the performance obligations were reassessed. This resulted in a reduction in the fair value of the contingent consideration liability with a corresponding credit to the income statement of £0.87m.

4(d) Post-completion services expense

A number of former owners of MatsSoft Ltd continued to work in the business following its acquisition and in accordance with IFRS 3 a proportion of the contingent consideration arrangement is treated as remuneration and expensed in the income statement (see note 7(g)).

5 Other income and expenses items

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

5(a) Other income

	2019 £000	2018 £000
Rental income	–	23

5(b) Other gains/(losses)

	2019 £000	2018 £000
Net foreign exchange (losses)/gains	(9)	(12)
Net loss on disposal of property, plant and equipment	(2)	–
Total other gains/(losses)	(11)	(12)

5(c) Breakdown of expenses by nature

	Notes	2019 £000	2018 £000
Inventory recognised as an expense		266	362
Employee benefit expenses	5(d)	14,047	12,350
Depreciation and amortisation	8(a), 8(b)	1,942	1,918
Impairment of other intangible assets	4(a)	–	792
Operating lease payments	15(a)	297	334
Non-recurring transaction costs	4(b)	–	464
Other expenses		4,835	4,884
Total cost of sales and administrative expenses		21,387	21,104

Research and development costs of £1.68m have been expensed during the year (2018: £1.90m).

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

	2019 £000	2018 £000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	20	20
Fees payable to the Company's auditor for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	35	33
– assurance related services	7	7
– corporate finance services	–	29
	62	89

5(d) Breakdown of employee benefit expenses

	Notes	2019 £000	2018 £000
Wages and salaries		12,791	11,424
Less: internal development costs capitalised in the year		(1,333)	(1,710)
Social security costs		1,463	1,327
Share options granted to Directors and employees	18(a)	507	848
Pension costs – defined contribution plans		619	461
		14,047	12,350

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

	2019 £000	2018 £000
Average number of people (including Executive Directors) employed:		
Sales and marketing	65	67
Development and operations	140	128
Management and administration	25	22
Total average headcount	230	217

Notes to the consolidated financial statements

Continued

5 Other income and expenses items continued

5(f) Finance income and costs

	2019 £000	2018 £000
<i>Finance income</i>		
Interest income from financial assets held for cash management purposes	41	29
Interest income on available-for-sale financial assets	–	–
Finance income	41	29
<i>Finance costs</i>		
Interest and finance charges paid/ payable for financial liabilities at amortised cost	613	558
Borrowings: unwinding of discount (see note 7(f))	114	102
Other payables: unwinding of discount (see note 7(g))	67	106
Finance costs expended	794	766
Net finance (costs)/ income	(753)	(737)

6 Tax expense

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

6(a) Tax expense

	2019 £000	2018 £000
<i>Current tax</i>		
Current tax on profits for the year	–	–
Adjustments in respect of prior years	–	–
Total current tax expense	–	–
<i>Deferred tax</i>		
Decrease/(increase) in deferred tax assets	45	(77)
Increase/(decrease) in deferred tax liabilities	97	(14)
Total deferred tax expense/(credit)	142	(91)
Total tax charge/(credit)	142	(91)

6(b) Significant estimate – tax

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

The Group has tax losses available for carrying forward against future taxable income of £8.39m (2018: £6.94m). The Group has recognised a deferred tax asset of £0.37m (2018: £0.36m) which is 25% of the total loss as management consider that it is more likely than not that the future taxable profits will exceed this amount within the next five years.

In addition, the Group has not recognised a deferred tax asset of £1.14m (2018: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2018: £6.68m) or a deferred tax asset of £0.20m (2018: £0.38m) in relation to temporary timing differences due to share-based payment charges of £1.03m (2018: £1.98m).

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

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

	2019 £000	2018 £000
Profit before tax	752	45
Tax expense calculated at 19% (2018: 19%)	143	9
Tax effects of:		
– expenses not deductible for tax purposes	262	337
– change in fair value of contingent consideration	(177)	–
– additional deductions for R&D expenditure	(302)	(211)
– utilisation of previously unrecognised tax losses	(17)	(222)
– tax losses arising in the period not provided as a deferred tax asset	252	29
– relief for employee share schemes	(30)	(35)
– other	11	2
Adjustment in respect of prior years	–	–
Total tax charge/ (credit)	142	(91)

6(d) Amounts recognised directly in equity

	2019 £000	2018 £000
<i>Aggregate current and deferred tax arising in the year and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:</i>		
Deferred tax: share-based payments	(38)	1
	(38)	1

7 Financial assets and liabilities

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

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

The Group holds the following financial instruments:

	Notes	2019 £000	2018 £000
Financial assets			
Financial assets at fair value through other comprehensive income	7(c)	72	72
Financial assets at amortised cost			
• Trade receivables	7(a)	3,864	6,078
• Contract assets	3(c)	1,178	1,437
• Other financial assets at amortised cost	7(b)	100	117
• Cash and cash equivalents	7(d)	7,769	5,779
Total financial assets		12,983	13,483
Financial liabilities			
Liabilities at amortised cost			
• Trade and other payables (excluding statutory liabilities)	7(e), 7(g)	4,575	4,982
• Borrowings	7(f)	6,632	6,518
Total financial liabilities		11,207	11,500

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

Notes to the consolidated financial statements

Continued

7 Financial assets and liabilities continued

7(a) Trade receivables

	2019 £000	2018 £000
<i>Current assets</i>		
Trade receivables	3,946	6,179
Loss allowance (see note 12(c))	(82)	(101)
	3,864	6,078

Classification as trade receivables

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

Fair values of trade receivables

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

Impairment and risk exposure

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

7(b) Other financial assets at amortised cost

	2019 £000	2018 £000
Other receivables	100	117
	100	117

Classification as financial assets at amortised cost

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

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

Fair values of other financial assets at amortised cost

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

Impairment and risk exposure

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

7(c) Financial assets at fair value through other comprehensive income

Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise equity securities which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long term. Note 20(a) explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to at FVOCI.

Equity investments at fair value through other comprehensive income

	2019 £000	2018 Restated £000	2017 Restated £000
Non-current assets			
<i>Unlisted equity</i>			
Macranet Ltd	72	72	288

The investment is denominated in sterling (£). The investment in Macranet Ltd (a provider of social media engagement solutions) has a historic cost of £0.29m. The fair value measurement is classified as level 3 in the hierarchy as there is no observable market data. The Company is a minority investor alongside Draper Esprit VCT plc, a quoted venture capital trust. They have established fair value using the Private Equity and Venture Capital Guidelines. In line with this valuation the Company has recognised a change in the fair value of the investment of £0.22m in the prior year through other comprehensive income.

7(d) Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	7,769	5,779
Deposits at call	–	–
Cash and cash equivalents	7,769	5,779

Classification as cash equivalents

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

7(e) Trade and other payables

	2019 £000	2018 £000
Current liabilities		
Trade payables	336	373
Payroll tax and other statutory liabilities	690	1,038
Other payables	4,239	3,684
	5,265	5,095

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

Other payables includes the fair value of contingent consideration liabilities of £1.68m (2018: £1.82m) see note 7(g).

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

7(f) Borrowings

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
Unsecured						
Loan Notes	–	6,632	6,632	–	6,518	6,518
Total borrowings	–	6,632	6,632	–	6,518	6,518

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

Notes to the consolidated financial statements

Continued

7 Financial assets and liabilities continued

7(f) Borrowings continued

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

	2019 £000	2018 £000
Face value of notes issued	7,000	7,000
Share schemes reserve – value of share option	(584)	(584)
	6,416	6,416
Unwinding of discount:		
Opening balance	102	–
Movement in the year	114	102
Closing balance	216	102
Non-current liability	6,632	6,518

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

7(g) Other payables - contingent consideration

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
Contingent consideration	1,680	–	1,680	1,824	925	2,749

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

	2019 £000	2018 £000
Opening balance	2,749	–
Acquisition of MatsSoft Limited	–	2,338
Charged/ (credited) to profit or loss:		
– post-completion services expense ⁽¹⁾	320	617
– unwinding of discount	67	106
– change in fair value of contingent consideration ⁽²⁾	(865)	–
Amounts paid during the year	(591)	(312)
Closing balance	1,680	2,749

⁽¹⁾ Of which: £0.24m (2018: £0.46m) relates to contingent cash consideration and is included as 'post-completion services'; and £0.08m (2018: £0.16m) relates to contingent share consideration and is included as 'share-based payments', both within 'administrative expenses'.

⁽²⁾ The purchase of MatsSoft Limited included a contingent consideration arrangement based on certain performance obligations. These were initially recorded at fair value, which is the present value of the expected payments. At the year-end the estimates of achieving the performance obligations were reassessed. This resulted in a reduction in the fair value of the contingent consideration liability with a corresponding credit to the income statement of £0.87m.

8 Non-financial assets and liabilities

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

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

8(a) Property, plant and equipment

	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost			
At 30 June 2017	427	1,210	1,637
Acquisition of subsidiary	21	32	53
Additions	2	169	171
Disposals	–	–	–
At 30 June 2018	450	1,411	1,861
Additions	804	274	1,078
Disposals	(260)	(1)	(261)
At 30 June 2019	994	1,684	2,678
Accumulated depreciation			
At 30 June 2017	335	829	1,164
Disposals	–	–	–
Depreciation charge	70	182	252
At 30 June 2018	405	1,011	1,416
Disposals	(258)	–	(258)
Depreciation charge	121	189	310
At 30 June 2019	268	1,200	1,468
Net book amount			
At 30 June 2017	92	381	473
At 30 June 2018	45	400	445
At 30 June 2019	726	484	1,210

Depreciation expense of £0.31m (2018: £0.25m) has been charged in 'administrative expenses'.

Depreciation methods and useful lives

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

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

See note 20(n) for the other accounting policies relevant to property, plant and equipment.

Notes to the consolidated financial statements

Continued

8 Non-financial assets and liabilities continued

8(b) Intangible assets

	Customer contracts and relationships £000	Brand names £000	Acquired software £000	Goodwill £000	Internally generated software £000	Trademarks and licenses £000	Total £000
Cost							
At 30 June 2017	4,136	60	3,278	7,160	4,760	997	20,391
Acquisition of subsidiary	12	206	2,237	15,597	–	–	18,052
Additions	–	–	–	–	1,764	137	1,901
Disposals	–	–	–	–	–	–	–
At 30 June 2018	4,148	266	5,515	22,757	6,524	1,134	40,344
Additions	300	–	–	–	1,532	50	1,882
Disposals	–	–	–	–	–	–	–
At 30 June 2019	4,448	266	5,515	22,757	8,056	1,184	42,226
Accumulated amortisation							
At 30 June 2017	3,961	60	2,185	–	2,135	607	8,948
Impairment charge	–	–	–	–	792	–	792
Amortisation charge	112	63	372	–	989	130	1,666
Disposals	–	–	–	–	–	–	–
At 30 June 2018	4,073	123	2,557	–	3,916	737	11,406
Amortisation charge	71	69	372	–	949	171	1,632
Disposals	–	–	–	–	–	–	–
At 30 June 2019	4,144	192	2,929	–	4,865	908	13,038
Net book amount							
At 30 June 2017	175	–	1,093	7,160	2,625	390	11,443
At 30 June 2018	75	143	2,958	22,757	2,608	397	28,938
At 30 June 2019	304	74	2,586	22,757	3,191	276	29,188

Amortisation of £1.63m (2018: £1.67m) and impairment charges of £nil (2018: £0.79m) are included within 'administrative expenses'.

Amortisation methods and useful lives

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

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

See note 20(o) for the other accounting policies relevant to intangible assets, and note 20(i) for the Group's policy regarding impairments.

Significant estimate – useful lives of acquired intangible assets

These useful lives are based on management's estimates of the period that the assets will generate revenue. These estimates are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Consolidated Income Statement in specific periods.

Significant estimate – internally generated software capitalisation and impairment

During the year, the Group capitalised £1.53m (2018: £1.76m) of expenses as internally generated software assets. The Group is required to assess whether expenditure on research and development should be recognised as an internally generated intangible asset on the balance sheet. The recognition criteria include a number of judgements regarding the development's feasibility, the probable future economic benefits and being able to measure reliably the expenditure attributable to the intangible asset during its development. The assessments and estimates used by the Group could have a significant impact on the amount of expenditure capitalised.

Any such assets capitalised are: subject to impairment reviews whenever events or changes in circumstances indicate that the carrying amount may not be recoverable; and are amortised over their useful lives in accordance with the accounting policy stated above. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Consolidated Income Statement in specific periods. The carrying value of capitalised internally generated software amounted to £3.19m (2018: £2.61m) after an impairment charge of £nil (2018: £0.79m) (see note 4(a)).

Impairment tests for goodwill

Goodwill is monitored by management at the level of the operating segment identified in note 2 which is considered to be a single cash-generating unit ('CGU'). Goodwill was tested for impairment on 30 June 2019 following IAS 36 criteria. Management compared the carrying value of the CGU to the value-in-use, to confirm that no impairment of goodwill is necessary, as is shown in the table below:

	Goodwill	Acquired intangibles	Carrying value	Value-in-use	Excess value-in-use	Sensitivity
	£000	£000	£000	£000	£000	%
Netcall	22,757	2,964	25,721	33,545	7,824	30

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

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

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20(i). The recoverable amount of the CGU was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on the most recent financial plan approved by the Board for the five years ending 30 June 2024 and terminal values based on the perpetuity of cash generated with a 1.4% long-term growth rate applied. The forecast and growth assumption for the CGU is based on management's experience and understanding of the market place for its software. Forecasts and terminal values for both cash-generating units were discounted at a pre-tax adjusted discount rate of 10% (2018: 10%). The pre-tax discount rates are based on the Group's weighted average cost of capital.

Notes to the consolidated financial statements

Continued

8 Non-financial assets and liabilities continued

8(c) Deferred tax balances

Deferred tax assets

The balance comprises temporary differences attributable to:

	2019 £000	2018 £000
Tax losses	366	360
Accelerated tax depreciation	–	–
Share-based payments	98	209
Other	37	15
	501	584

The movement in deferred tax assets during the year was:

	Tax losses £'000	Accelerated tax depreciation £'000	Share-based payments £'000	Other temporary differences £'000	Total £'000
Deferred tax assets					
At 30 June 2017	306	3	175	21	505
Acquisition of subsidiary	–	–	–	1	1
Credited/(charged) to the income statement	54	(3)	33	(7)	77
Credited to equity	–	–	1	–	1
At 30 June 2018	360	–	209	15	584
Credited/(charged) to the income statement	6	–	(73)	22	(45)
Charged to equity	–	–	(38)	–	(38)
At 30 June 2019	366	–	98	37	501

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

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2019 £000	2018 £000
Acquired intangibles	360	428
Internally generated software assets	413	323
Accelerated tax depreciation	78	3
	851	754

The movement in deferred tax liabilities during the year was:

	Accelerated tax depreciation £'000	Acquired intangibles £'000	Internally generated software assets £'000	Total £'000
Deferred tax liabilities				
At 30 June 2017	–	34	260	294
Acquisition of subsidiary	8	466	–	474
(Credited)/charged to the income statement	(5)	(72)	63	(14)
At 30 June 2018	3	428	323	754
Charged/(credited) to the income statement	75	(68)	90	97
At 30 June 2019	78	360	413	851

8(d) Inventories

	2019 £000	2018 £000
<i>Current assets</i>		
Goods for resale	165	215

The cost of individual items are determined on first-in first-out basis. See note 20(m) for the Group's other accounting policies for inventories.

Inventories recognised as an expense during the year amounted to £0.27m (2018: £0.36m) of which write downs of inventories to net realisable value amounted to £nil (2018: £0.04m). These were recognised as an expense during the year and included in 'cost of sales'.

8(e) Other current assets

	2019 £000	2018 £000
Prepayments	1,314	1,077
	1,314	1,077

8(f) Provisions

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
Dilapidations	–	77	77	128	44	172
Total provisions	–	77	77	128	44	172

The dilapidations provision provides for the estimated costs of restoring the Group's leasehold properties at lease termination, to the condition in which they were originally leased. The majority of the provision is anticipated to be utilised in June 2021.

Movements in provisions

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

	Dilapidations £000
At 30 June 2017	122
Acquisition of MatsSoft Limited	120
Charged to profit or loss:	
additional provision	21
– unused amounts reversed	(73)
Amounts used during the year	(18)
At 30 June 2018	172
Charged to profit or loss:	
– additional provision	39
– unused amounts reversed	(60)
Amounts used during the year	(74)
At 30 June 2019	77

Notes to the consolidated financial statements

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9 Equity

9(a) Share capital and premium

	Number of shares	Ordinary shares £000	Share premium £000	Total £000
At 30 June 2017	141,071,756	7,054	3,015	10,069
Issue of ordinary shares as consideration for acquisition of a business combination	3,499,864	175	–	175
Employee share schemes issue (note 19(a))	275,156	13	–	13
At 30 June 2018	144,846,776	7,242	3,015	10,257
Employee share schemes issue (note 19(a))	329,507	17	–	17
At 30 June 2019	145,176,283	7,259	3,015	10,274

Share capital

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

The Company purchased none of its own shares during the year (2018: nil). The total number of ordinary shares held in Treasury at the end of the year was 1,869,181 (2018: 1,869,181), the value of which is included within a Treasury Reserve (see note 9(c)).

Information relating to the share options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the year, is set out in note 18.

Share premium

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

9(b) Other equity

	Merger reserve £000	Capital reserve £000	Total £000
At 30 June 2017	2,509	188	2,697
Additions	2,135	–	2,135
At 30 June 2018 and 30 June 2019	4,644	188	4,832

Merger reserve

Merger reserve includes the premium arising on the fair values ascribed to shares issued in the course of business combinations where over 90% of the issued share capital of the acquiree is acquired by the Company.

Capital reserve

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

9(c) Other reserves

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

	Treasury shares £000	Share option reserve £000	Foreign currency translation £000	Financial assets at FVOCI £000	Total £000
At 30 June 2017	(419)	3,273	–	–	2,854
Increase in equity reserve in relation to options issued	–	1,364	–	–	1,364
Tax credit relating to share options	–	1	–	–	1
Reclassification following exercise or lapse of options	–	(81)	–	–	(81)
Exchange differences arising on translation of foreign operations	–	–	(5)	–	(5)
Revaluation	–	–	–	(216)	(216)
At 30 June 2018	(419)	4,557	(5)	(216)	3,917
Increase in equity reserve in relation to options issued	–	633	–	–	633
Tax debit relating to share options	–	(38)	–	–	(38)
Reclassification following exercise or lapse of options	–	(55)	–	–	(55)
Exchange differences arising on translation of foreign operations	–	–	(17)	–	(17)
At 30 June 2019	(419)	5,097	(22)	(216)	4,440

Treasury shares

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

Share option reserve

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

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 20(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Financial asset at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income. These changes are accumulated within the financial assets FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

10 Net Funds/ (Debt) reconciliation

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

10(a) Net Funds/ (Debt)

	2019 £000	2018 £000
Cash & cash equivalents	7,769	5,779
Borrowings – fixed interest and repayable after one year	(6,632)	(6,518)
	1,137	(739)

Notes to the consolidated financial statements

Continued

10 Net Funds/ (Debt) reconciliation continued

10(b) Movements in Net Funds/ (Debt)

	Cash & cash equivalents £000	Borrowings due after 1 year £000	Total £000
At 30 June 2017	12,724	–	12,724
Cash flow	(6,937)	(7,000)	(13,937)
Share-based payment reserve (note 7(f))	–	584	584
Unwinding of discount (note 7(f))	–	(102)	(102)
Foreign exchange adjustments	(8)	–	(8)
At 30 June 2018	5,779	(6,518)	(739)
Cash flow	1,998	–	1,998
Unwinding of discount (note 7(f))	–	(114)	(114)
Foreign exchange adjustments	(8)	–	(8)
At 30 June 2019	7,769	(6,632)	1,137

11 Critical estimates and judgements

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

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

The areas involving significant judgement or estimate are:

- Recognition of revenue and allocation of transaction price – note 3
- Estimation of current tax payable and current tax expense – note 6(b)
- Recognition of deferred tax assets for carried forward tax losses – note 6(b)
- Estimation of useful life of intangible assets – note 8(b)
- Estimated impairment of internally generated software assets – note 8(b)
- Estimated recoverable value of goodwill – note 8(b)
- Estimation of fair values of contingent purchase consideration in a business combination – note 7(g)
- Estimation of fair value of share-based payments – note 18

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

12 Financial risk management

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

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

The principal financial instruments used by the Group are bank deposits, trade receivables, other financial assets at amortised cost, trade payables that arise directly from its operations and borrowings. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risks arising from these financial instruments are: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

12(a) Market Risk – Foreign currency

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

	US dollar £000	Euro £000	Total £000
At 30 June 2019			
Trade receivables	38	111	149
Contract assets	–	–	–
Other financial assets at amortised cost	–	–	–
Cash and cash equivalents	86	4	90
Trade and other payables (excluding statutory liabilities)	(22)	(10)	(32)
	102	105	207
At 30 June 2018			
Trade receivables	40	50	90
Contract assets	–	–	–
Other financial assets at amortised cost	–	–	–
Cash and cash equivalents	125	19	144
Trade and other payables (excluding statutory liabilities)	(21)	(27)	(48)
	144	42	186

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

12(b) Market Risk – Interest rate

The Group's borrowings are at a fixed rate of interest. Therefore, the Group's interest rate risk arises principally from bank deposits. The Group manages its cash held on deposit to gain reasonable interest rates whilst maintaining sufficient liquidity to support the Group's strategy by placing a proportion of cash into short-term treasury deposits and retaining the balance in current accounts. The average interest rate gained on cash held during the year was 0.6% (2018: 0.5%). A 1% movement in interest rates would impact upon equity and net profit by approximately £52,000 (2018: £50,000).

12(c) Credit risk

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, which are principally cash and cash equivalents, trade receivables and contract assets.

Cash and cash equivalents are held at banks with good independent credit ratings in accordance with the Group treasury policy.

The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess credit risk of new customers before entering contracts and actively manage the collections process. Historically, bad debts across the Group have been low. The concentration of credit risk is limited due to the large and unrelated customer base comprising mainly blue chip companies and public sector organisations.

The Group's management considers that its financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. All receivables are subject to regular review to ensure that they are recoverable and any issues identified as early as possible.

Notes to the consolidated financial statements

Continued

12 Financial risk management continued

12(c) Credit risk continued

Impairment

The Group's financial assets that are subject to the expected credit loss model: trade receivables from contracts with customers and contract assets.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The payment profiles and historical credit losses experienced over a period of three years to 30 June 2019 has been reviewed, and as incidence of credit losses is very low, a single-loss rate has been applied to trade receivables from contracts. Contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

On that basis, the loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

	2019 £000	2018 £000
Expected loss rate	2.2%	2.9%
Gross carrying amount – trade receivables	3,946	6,179
Gross carrying amount – contract assets	1,178	1,437
Loss allowance	111	219

The closing loss allowances for trade receivables and contract assets as at 30 June 2019 reconcile to the opening balance as follows:

	Contract assets		Trade receivables	
	2019 £000	2018 £000	2019 £000	2018 £000
At 1 July – calculated under IAS 39	118	73	101	11
Amounts restated through opening retained earnings	–	–	–	–
Opening loss allowance as at 1 July 2018 – calculated under IFRS 9	118	–	101	11
Acquisition of MatsSoft Limited	–	–	–	174
Increase in loss allowance recognised in profit or loss during the year	26	45	70	102
Receivables written off during the year as uncollectible	–	–	(79)	(138)
Unused amounts reversed	(115)	–	(10)	(48)
	29	118	82	101

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model.

Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor; and
- probability that the debtor would enter bankruptcy or financial reorganisation.

Receivables for which an impairment provision was recognised were written off against the provision where there was no expectation of recovering additional cash.

12(d) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Board reviews an annual 12-month financial projection as well as information regarding cash balances on a monthly basis. At the balance sheet date, liquidity risk was considered to be low given the fact the Group is cash generative, has no borrowings repayable before 2022 and cash and cash equivalents are thought to be at acceptable levels.

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

	Less than 6 months £000	6 to 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total contractual cash flows £000	Carrying value £000
At 30 June 2019							
Trade and other payables ⁽¹⁾	4,575	–	–	–	–	4,575	4,575
Borrowings	–	–	–	4,667	2,333	7,000	6,632
	4,575	–	–	4,667	2,333	11,575	11,207
At 30 June 2018							
Trade and other payables ⁽¹⁾	2,940	–	1,617	–	–	4,982	4,982
Borrowings	–	–	–	2,333	4,667	7,000	6,518
	2,940	–	1,617	2,333	4,667	11,982	11,500

⁽¹⁾ excluding statutory liabilities.

13 Capital management

13(a) Risk management

The Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and dividends. An analysis of net capital is set out in the table below:

	2019 £000	2018 £000
Net funds/ (debt)	1,137	(739)
Equity attributable to owners of the Parent Company	21,934	21,448
Net capital	20,797	22,187

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

Notes to the consolidated financial statements

Continued

13 Capital management continued

13(b) Dividends

	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	Balance sheet (£'000)
Year to June 2019					
Final ordinary dividend for the year to June 2018	6/2/19	0.53p	758	758	–
			758	758	–
Year to June 2018					
Interim enhanced dividend for year to June 2017	27/7/17	1.05p	1,461	1,461	–
Final ordinary dividend for the year to June 2017	12/1/18	1.16p	1,656	1,656	–
			3,117	3,117	–

It is intended that this year's final ordinary dividend of 0.20 pence per share will be paid to shareholders on 5 February 2020. Netcall plc shares will trade ex-dividend from 19 December 2019 and the record date will be 20 December 2019. The estimated amount payable is £0.29 million. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

14 Interests in other entities

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

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

15 Commitments

15(a) Non-cancellable operating leases

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between one and five years and none of them contain renewal or purchase options or escalation clauses or any restrictions regarding further leasing. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 £000	2018 £000
No later than 1 year	141	190
Later than 1 year and no later than 5 years	474	59
More than one year	155	–
Total	770	249

16 Post balance sheet events

The Board recommended a final dividend for the year ended 30 June 2019 on 24 September 2019. See note 13(b) for details.

17 Related party transactions

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

17(a) Sale and purchase of goods and services

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

17(b) Key management compensation

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

	2019 £000	2018 £000
Salaries and other short-term employee benefits	855	778
Company contributions to money purchase pension schemes	32	31
Share-based payments	176	413
Total	1,063	1,222

17(c) Directors

	2019 £000	2018 £000
Aggregate emoluments	754	680
Company contributions to money purchase pension schemes	32	31
Total	786	711

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

The highest paid Director was paid £384,000 (2018: £344,000). Personal pension contributions paid to the highest paid Director were £22,000 (2018: £21,000).

Notes to the consolidated financial statements

Continued

17 Related party transactions continued

17(c) Directors continued

The Directors received dividend payments as follows:

	2019 £000	2018 £000
Executive Directors		
Henrik Bang ⁽¹⁾	24	104
James Ormondroyd ⁽²⁾	9	36
Non-Executive Directors		
Michael Jackson ⁽³⁾	4	15
Michael Neville	3	13

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

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

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

18 Share-based payments

18(a) Employee Share Options

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

- A Long Term Incentive Plan ("LTIP") was introduced in June 2011. The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to 55 pence in the period from the date of grant until 1 January 2017; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of ten years; and once vested up to 100% of the options awarded may be exercised.
- In December 2013 the Company effected another Long Term Incentive Plan ("LTIP2"). The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to 95 pence in the six years following the date of grant; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of ten years; and once vested up to 100% of the options awarded may be exercised.
- In April 2014 the Company effected a further Long Term Incentive Plan ("LTIP3"). The options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to £1.20 in the seven years following the date of grant; and, the option holder being in employment at the date the option is exercised. The options have a contractual option term of seven years; and once vested up to half of the options awarded may be exercised three years after grant and the other half five years after grant.
- In November 2015 and October 2016 the Company granted a number of Unapproved Share Options ("Unapproved"). These options are granted at an exercise price of nil pence. Options are conditional on the employee being in employment in two years from grant; and, having made suitable arrangements with the Company for payment of any income tax or employee national insurance arising as a result of the award.
- In August 2017 the Company granted a number of Unapproved Share Options ("Unapproved 2"). These options are granted at an exercise price of 5 pence. Options are conditional on certain vesting criteria including achievement of the MatsSoft Limited contingent consideration targets; the employee being in employment at exercise and having made suitable arrangements with the Company for payment of any income tax or employee national insurance arising as a result of the award. The options have a contractual option term of ten years; and once vested up to 100% of the options awarded may be exercised.
- In November 2017 the Company granted a number of Unapproved Share Options ("Unapproved 3"). These options are granted at an exercise price of nil pence. Options are conditional on the employee being in employment three years from grant; and, having made suitable arrangements with the Company for payment of any income tax or employee national insurance arising as a result of the award.

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

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

	2019 Weighted average exercise price in pence per share	2019 Options (thousand)	2018 Weighted average exercise price in pence per share	2018 Options (thousand)
At 1 July	4.9	18,816	4.9	17,542
Granted	5.0	285	4.2	1,604
Exercised	4.6	(330)	3.4	(275)
Forfeited	5.0	(40)	5.0	(55)
At 30 June	5.0	18,731	4.9	18,816

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

Grant date	Expiry date	Scheme	Exercise price in pence per share	Options (thousands)	
				2019	2018
July 2011	July 2021	LTIP1	5.0	173	292
July 2012	July 2022	LTIP1	5.0	334	334
December 2013	April 2021	LTIP2	5.0	1,836	2,006
April 2014	April 2021	LTIP3	5.0	12,100	12,100
June 2014	April 2021	LTIP3	5.0	760	761
March 2015	March 2022	LTIP3	5.0	378	379
November 2015	April 2022	LTIP3	5.0	1,287	1,293
November 2015	November 2022	Unapproved	0.0	48	66
October 2016	October 2023	Unapproved	0.0	33	42
August 2017	August 2027	Unapproved 2	5.0	1,246	1,292
November 2017	November 2024	Unapproved 3	0.0	251	251
December 2018	December 2025	Unapproved 3	0.0	285	–
			5.0	18,731	18,816

At 30 June 2019, out of the 18,731,028 outstanding options (2018: 18,816,539 options), 5,653,971 options (2018: 3,130,960) were exercisable. The weighted average exercise price for options exercisable at the year-end was 4.9 pence (2018: 4.9 pence).

Options exercised in the year resulted in 329,507 shares (2018: 275,156) being issued at a weighted average price of 4.6 pence each (2018: 3.4 pence). The related average weighted share price at the time of exercise was 51.7 pence per share (2018: 58.9 pence per share).

See note 18(c) for the total expense recognised in the income statement for share options granted to Directors and employees (including associated national insurance).

Significant estimate – fair value of options granted

The weighted average fair value of the Unapproved 3 options granted during the period determined using the Black-Scholes option pricing model was 30.2 pence per option. The significant inputs into the model were mid-market share price of 37.5 pence at the grant date; exercise price of 5 pence; volatility of 27%; an expected option life of 3.0 years; a bid price share discount of 2.5%; and, an annual risk-free interest rate of 1.1%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the last four years.

18(b) Other share option agreements

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

Notes to the consolidated financial statements

Continued

18 Share-based payments continued

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

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

	Notes	2019 £000	2018 £000
Employee share options	18(a)	507	848
Post-completion services	7(g)	76	153
		583	1,001

19 Earnings per share

19(a) Basic and diluted

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

	2019 £000	2018 £000
Net earnings attributable to ordinary shareholders (£000)	610	136
Weighted average number of ordinary shares in issue (thousands)	143,038	142,460
Basic earnings per share (pence)	0.43	0.10

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

	2019 £000	2018 £000
Weighted average number of ordinary shares in issue (thousands)	143,038	142,460
Adjustments for share options	6,085	4,901
Weighted average number of potential ordinary shares in issue (thousands)	149,123	147,361
Diluted earnings per share (pence)	0.41	0.09

19(b) Adjusted basic and diluted

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

	2019 £000	2018 £000
Profit used for calculation of basic and diluted earnings per share	610	136
Non-recurring transaction costs	–	464
Change in fair value of contingent consideration	(865)	–
Share-based payments	583	1,001
Post-completion services	244	464
Amortisation of acquired intangible assets	512	547
Impairment charge on intangible fixed assets	–	792
Unwinding of discount – contingent consideration and borrowings	181	208
Tax effect of adjustments	(125)	(613)
Profit used for calculation of adjusted basic and diluted earnings per share	1,140	2,999
	2019 Pence	2018 Pence
Adjusted basic earnings per share	0.80	2.11
Adjusted diluted earnings per share	0.76	2.04

20 Summary of significant accounting policies

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

20(a) Basis of preparation

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

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

As a result of the level of cash generated from operating activities, the Group has maintained a healthy liquidity position as shown on the consolidated balance sheet. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

The Group has applied the following standards and amendments, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, for the first time for the annual reporting period commencing 1 July 2018. Details on each are set out below.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments with a date of initial application of 1 July 2018. IFRS 9 replaces IAS 39 and impacts upon the classification and measurement of financial instruments and requires certain additional disclosures. The only change on adoption of IFRS 9 was to record a change in the fair value of the Group's investment in Macranet through other comprehensive income in 2018 as further described in Note 7(c). The following areas were identified as the main items of interest to the Group:

- **Credit losses:** IFRS 9 replaced the existing incurred loss model with a forward-looking expected credit loss model. The expected credit losses on these trade receivable and contract assets are estimated using a single-loss rate based on the Group's historical credit loss experience, adjusted for management judgement concerning factors that are specific to the receivables, general economic conditions and assessment of the current as well as the forecast direction of conditions at the reporting date based on reasonable and supportable information that is available, without undue cost or effort to obtain. Due to the exemption in IFRS 9, there is no requirement to restate comparative periods in the year of initial application and as a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 July 2018. The change from an incurred loss model under IAS 39 to an expected loss model has not had a material impact and no adjustment is required at 1 July 2018. See note 12(c) for further information.
- **Available-for-sale financial assets:** The classification of financial assets as 'available-for-sale' no longer exists under IFRS 9. In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long term. The Group has irrevocably elected to reclassify equity securities, which are not held for trading, as financial assets at fair value through other comprehensive income. See note 7(c) for further information.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 July 2018 on a retrospective basis. IFRS 15 replaced all existing revenue recognition requirements in IFRS and sets out a comprehensive framework for determining whether, when and how much revenue to recognise. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the requirements of IFRS 15 and the Group's previous revenue recognition policy. Accordingly, no financial restatement has been made. Revenue is only recognised when (or as) control of goods or services passes to the customer, in accordance with when distinct performance obligations are met, and at the amount to which the Group expects to be entitled. The impact of adopting IFRS 15 is detailed in note 3(f).

Notes to the consolidated financial statements

Continued

20 Summary of significant accounting policies continued

20(a) Basis of preparation continued

Standards and interpretations not yet applied by the Group

Certain new standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been adopted early. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases (effective for the year beginning 1 July 2019) will require all leases to be recognised on the balance sheet. Currently, IAS 17 Leases only requires leases categorised as finance leases to be recognised on the balance sheet, with leases categorised as operating leases not recognised. Lessees will recognise a 'right-of-use' asset and a corresponding liability on the balance sheet. The asset will be amortised over the length of the lease and the liability measured at amortised cost. Existing operating lease commitments are set out in note 15(a).

The Group expects to recognise right-of-use assets of approximately £0.80m on 1 July 2019, lease liabilities of £0.82m (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019). Overall net assets will be approximately £0.03m lower, and net current assets will be £0.16m lower due to the presentation of a portion of the liability as a current liability. The Group expects that net profit after tax will decrease by approximately £nil for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately £0.24m, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately £0.19m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply IFRS 16 from its mandatory adoption date of 1 July 2019.

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

20(b) Principles of consolidation and equity accounting

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

The Group uses the acquisition method of accounting to account for business combinations see note 20(h) (except Netcall UK Limited see explanation below).

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

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

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

20(c) Segment reporting

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

20(d) Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

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

20(e) Revenue

The accounting policies for the Group's revenue from contracts with customers is explained in note 3.

20(f) Current and deferred taxation

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

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the consolidated financial statements

Continued

20 Summary of significant accounting policies continued

20(g) Leases

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

20(h) Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no reinstatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

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

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

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

20(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

20(j) Financial instruments

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

Financial assets

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

Financial assets at fair value through other comprehensive income (FVOCI) comprise equity securities which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long term.

Financial liabilities

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

Share capital

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

Further information on the Group's financial instruments can be found in note 7 and note 9.

20(k) Cash and cash equivalents

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

20(l) Trade receivables

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

20(m) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work-in-progress comprises computer hardware and software, direct labour, other direct costs and relevant production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. See note 8(d) for further information.

20(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 21(i)).

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

Notes to the consolidated financial statements

Continued

20 Summary of significant accounting policies continued

20(o) Intangible assets

Goodwill

Goodwill is measured as described in note 20(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

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

Internally generated software costs

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

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

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

Internally generated software development costs recognised as assets are carried at cost less amortisation, and amortised from the point at which the asset is ready to use. The amortisation methods and periods used by the Group are disclosed in note 8(b).

20(p) Trade payables

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

20(q) Borrowings

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

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

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

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

20(r) Provisions

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

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

20(s) Employee benefits - pensions

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

20(t) Share-based payments

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

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

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

20(u) Equity

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

Retained earnings represents the cumulative net gains and losses recognised in the consolidated income statement. See note 9 for descriptions of the other classes of equity.

20(v) Dividend distribution

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

Parent Company balance sheet

as at 30 June 2019

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Intangible assets	E	822	984
Investments in subsidiaries	F	38,240	37,904
Other investments	G	72	72
Deferred tax asset	L	244	228
Total non-current assets		39,378	39,188
Current assets			
Trade and other receivables	H	1,479	1,193
Cash and cash equivalents		2,624	2,448
Total current assets		4,103	3,641
Total assets		43,481	42,829
Equity and liabilities			
Equity			
Share capital	M	7,259	7,242
Share premium		3,015	3,015
Other equity	N	2,843	2,843
Other reserves	O	4,462	3,884
Retained earnings		16,543	15,560
Total equity		34,122	32,544
Liabilities			
Non-current liabilities			
Borrowings	I	6,632	6,518
Other payables	J	–	925
Total non-current liabilities		6,632	7,443
Current liabilities			
Trade and other payables	K	2,727	2,842
Total current liabilities		2,727	2,842
Total liabilities		9,359	10,285
Total equity and liabilities		43,481	42,829

The notes on pages 66 to 70 form part of these financial statements.

The Company has taken the exemption under Section 408 of the Companies Act 2006 to not present a full Income Statement.

The Company made a profit for the financial year of £1.68m (2018: £0.19m).

These financial statements on pages 64 to 70 were approved and authorised for issue by the Board on 24 September 2019 and were signed on its behalf by:

James Ormondroyd
Director



Netcall plc, Registered no. 01812912

Parent Company statement of changes in equity

as at 30 June 2019

	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2017	7,054	3,015	708	2,817	18,410	32,004
Issue of ordinary shares as consideration for acquisition of a business combination	175	–	2,135	–	–	2,310
Increase in equity reserve in relation to options issued	–	–	–	1,364	–	1,364
Reclassification following exercise or lapse of options	4	–	–	(81)	77	–
Proceeds from share issue	9	–	–	–	–	9
Dividends to equity holders of the Company	–	–	–	–	(3,117)	(3,117)
Transactions with owners	188	–	2,135	1,283	(3,040)	566
Profit and total comprehensive income for the year	–	–	–	–	190	190
Other comprehensive loss for the year	–	–	–	(216)	–	(216)
Profit and total comprehensive income for the year	–	–	–	(216)	190	(26)
Balance at 30 June 2018	7,242	3,015	2,843	3,884	15,560	32,544
Increase in equity reserve in relation to options issued	–	–	–	633	–	633
Reclassification following exercise or lapse of options	1	–	–	(55)	54	–
Proceeds from share issue	16	–	–	–	–	16
Dividends to equity holders of the Company	–	–	–	–	(758)	(758)
Transactions with owners	17	–	–	578	(704)	(109)
Profit for the year	–	–	–	–	1,687	1,687
Other comprehensive loss for the year	–	–	–	–	–	–
Profit and total comprehensive income for the year	–	–	–	–	1,687	1,687
Balance at 30 June 2019	7,259	3,015	2,843	4,462	16,543	34,122

The notes on pages 66 to 70 form part of these financial statements.

Notes to the Parent Company financial statements

A Principal accounting policies

(a) Basis of preparation

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

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

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

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

The financial statements have been prepared under the historical cost convention, modified in respect of the revaluation of financial assets and liabilities at fair value and share-based payments that have been measured at fair value.

The Company applies the Group accounting policies which are set out on page 70 in addition to the accounting policies set out below.

(b) Revenue

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

(c) Investments in subsidiaries

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

(d) Share-based payments

In addition to the policy set out in note 20(t), the Company has accounted for options granted to the employees of subsidiary undertakings as capital contributions, which have been recharged to the intermediate company holding the investment. The corresponding credit has been recognised in the employee share schemes reserve.

B Employees and Directors

The Company employed an average of two employees (including Executive Directors) during the year (2018: two). The only employees of the Company are the Executive Directors. Directors' remuneration has been disclosed within the Directors' report on page 11.

C Services provided by the Company's auditor and its associates

Fees payable to the Company's auditor for the audit of the Company's accounts and for other services are set out in note 5(c) of the consolidated financial statements.

D Profit for the financial year

The Company made a profit for the financial year of £1.68m (2018: £0.19m).

E Intangible assets

	Acquired software £000	Trademarks and licences £000	Total £000
Cost			
At 30 June 2017	2,223	179	2,402
Additions	–	–	–
At 30 June 2018	2,223	179	2,402
Additions	–	–	–
At 30 June 2019	2,223	179	2,402
Accumulated amortisation			
At 30 June 2017	1,149	121	1,270
Amortisation charge	148	–	148
At 30 June 2018	1,297	121	1,418
Amortisation charge	148	14	162
At 30 June 2019	1,445	135	1,580
Net book amount			
At 30 June 2017	1,074	58	1,132
At 30 June 2018	926	58	984
At 30 June 2019	778	44	822

F Investments in subsidiaries

	Total £000
Cost and Net book amount	
At 30 June 2017	22,169
Additions – acquisition of MatsSoft Limited	15,310
Additions – share incentive charges to subsidiaries	425
At 30 June 2018	37,904
Additions – share incentive charges to subsidiaries	366
At 30 June 2019	38,240

The Company's subsidiaries at the year-end are set out in note 14 of the consolidated financial statements.

All of the investments are unlisted.

G Other investments

Other investments comprise:

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
FVOCI						
Equity – Macranet Ltd	–	72	72	–	72	72

Note 20(a) explains the change of accounting policy and the reclassification of the investment in Macranet Ltd from available-for-sale to at fair value through profit or loss.

In the prior year a change in the fair value of this investment of £0.22m was recognised through other comprehensive income. Information about the methods and assumptions used in determining fair value is provided in note 7(c).

All of the other investments are unlisted and denominated in sterling (£).

Notes to the Parent Company financial statements

Continued

H Trade and other receivables

	2019 £000	2018 £000
Amounts owed from Group undertakings ⁽¹⁾	1,354	1,063
Prepayments and accrued income	125	130
	1,479	1,193

All amounts are due within one year.

⁽¹⁾ Amounts due to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

I Borrowings

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
<i>Unsecured</i>						
Loan Notes	–	6,632	6,632	–	6,518	6,518
Total borrowings	–	6,632	6,632	–	6,518	6,518

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

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

	2019 £000	2018 £000
Face value of notes issued	7,000	7,000
Share schemes reserve – value of share option	(584)	(584)
	6,416	6,416
Unwinding of discount:		
Opening balance	102	–
Movement in the year	114	102
Closing balance	216	102
Non-current liability	6,632	6,518

J Other payables – contingent consideration

	2019 Current £000	2019 Non-current £000	2019 Total £000	2018 Current £000	2018 Non-current £000	2018 Total £000
Contingent consideration	1,680	–	1,680	1,824	925	2,749
	1,680	–	1,680	1,824	925	2,749

See note 7(g) for information about the contingent consideration liability and its estimate. The current balance of £1.68m (2018: £1.82m) is included within 'Trade and other payables - Other liabilities'.

Movements during the year are set out below:

	2019 £000	2018 £000
Opening balance	2,749	–
Acquisition of MatsSoft Limited	–	2,338
Charged/ (credited) to profit or loss:		
– post-completion services expense	244	464
– share-based payment charge	76	153
– unwinding of discount	67	106
– change in fair value of contingent consideration	(865)	–
Amounts paid during the year	(591)	(312)
Closing balance	1,680	2,749

K Trade and other payables

	2019 £000	2018 £000
Amounts owed to Group undertakings ⁽¹⁾	348	250
Trade payables	–	50
Social security and other taxes	54	56
Other liabilities	1,854	2,161
Accruals	471	325
	2,727	2,842

⁽¹⁾ Amounts due to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

L Deferred taxation

	2019 £000	2018 £000
Deferred tax assets comprises:		
Losses	244	228
Opening balance	228	271
Movement in the year	16	(43)
Closing balance	244	228

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

The Company has not recognised a deferred tax asset of £1.14m (2018: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2018: £6.68m) or £0.18m (2018: £0.37m) in relation to timing differences due to share-based payment charges of £0.92m (2018: £1.96m).

Notes to the Parent Company financial statements

Continued

M Share capital

	2019 shares	2019 £000	2018 shares	2018 £000
Allocated, called up and fully paid				
Ordinary shares of 5p each	145,176,283	7,259	144,846,776	7,242

Details of the Company's issued share capital and share options are detailed in notes 9(a) and 18 of the consolidated financial statements.

N Other equity

	Merger reserve £000	Capital reserve £000	Total £000
At 30 June 2017	520	188	708
Additions	2,135	–	2,135
At 30 June 2018	2,655	188	2,843
Additions	–	–	–
At 30 June 2019	2,655	188	2,843

O Other reserves

	Treasury shares £000	Share options reserve £000	Financial assets at fair value at FVOCI £000	Total £000
At 30 June 2017	(419)	3,236	–	2,817
Increase in equity reserve in relation to options issued	–	1,364	–	1,364
Reclassification following exercise or lapse of options	–	(81)	–	(81)
Revaluation	–	–	(216)	(216)
At 30 June 2018	(419)	4,519	(216)	3,884
Increase in equity reserve in relation to options issued	–	633	–	633
Reclassification following exercise or lapse of options	–	(55)	–	(55)
At 30 June 2019	(419)	5,097	(216)	4,462

P Related party transactions

As permitted by FRS 101 related party transactions with wholly owned members of the Group have not been disclosed. Related party transactions regarding remuneration and dividends paid to key management (only Directors are deemed to fall into this category) of the Company have been disclosed in note 17 of the Group financial statements.

Q Post balance sheet events

Note 16 of the consolidated financial statements sets out the Company's post balance sheet event relating to dividends.

R Ultimate controlling party

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

Netcall plc
1st Floor
Building 2
Peoplebuilding Estate
Maylands Avenue, Hemel Hempstead
Hertfordshire, UK, HP2 4NW

t: 0330 333 6100
e: ir@netcall.com
w: netcall.com