A **new way** to transform business

Netcall plc
Annual Report and Accounts
for the year ended 30 June 2020

Stock code: NET

WELCOME TO Netcall

Netcall is a leading provider of low-code, contact centre and omnichannel messaging solutions. By giving customer-facing and IT talent the tools to collaborate, Netcall takes the pain out of big change projects. Collaborative CX helps businesses radically improve the customer experience, fast.

Over 600 organisations in financial services, insurance, local government and healthcare use the Netcall Liberty platform to make customers happy. We help businesses to extend front-end development teams, connect process, data and technology. Costs fall, process headaches disappear, and the customer experience improves dramatically.

View more online at:
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.

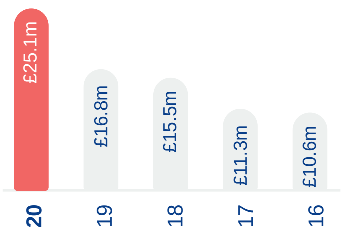
Liberty RPA
Robotic process automation – free up people, use software robots to increase accuracy, quality and scalability, while reducing human error.

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

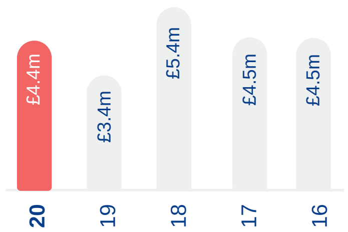
Liberty Connect
Conversational messaging platform – extend reach using digital channels like Facebook and Twitter, plus AI and bots.

Financial and operational highlights

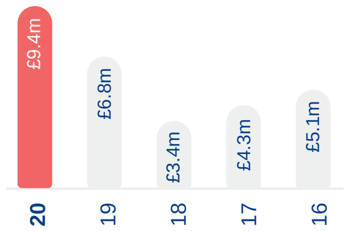
Recurring revenue



Adjusted EBITDA



Operating cash flow



Financial highlights

- Revenue up 10% to £25.1m (FY19: £22.9m)
- Total annual contract value[1] ('ACV') at 30 June 2020 up 7% year over year to £16.8m (30 June 2019: £15.7m)
- Cloud services ACV at 30 June 2020 up 25% year over year to £7.5m (30 June 2019: £6.0m)
- Adjusted EBITDA[2] on an IFRS 16 basis up 29% to £4.41m (FY19: £3.41m on an IAS 17 basis). Adjusted EBITDA on an IAS 17 basis increased by 21% to £4.12m
- Profit before tax of £0.50m (FY19: £0.75m)
- Cash generated from operations of £9.39m (FY19: £6.84m) including £2.21m of deferred VAT payments
- Group cash at 30 June 2020 was £12.7m (FY19: £7.77m) more than offsetting borrowings of £6.75m (FY19: £6.63m)
- Final ordinary dividend of 0.25p proposed, an increase of 25% (FY19: 0.20p)

(1) 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.

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

Operational highlights

- Solid trading in the financial year including strong demand in the final quarter despite COVID-19
- Continued high growth for cloud and Low-code solutions
- Organisation remained intact during the pandemic without requirement for furloughing, redundancies or pay-cuts
- Launched several releases to the Liberty platform, including solutions catering for COVID-19 requirements
- Several large customer implementations went live during the year

Contents

View more online at:
netcall.com

Chairman and Chief Executive's review

"Netcall performed excellently in the year, delivering double-digit revenue and cloud ACV growth. We experienced solid demand in our largest market segments of healthcare, government and financial services, where our cloud and Low-code business continued to grow significantly.

Following the outbreak of COVID-19, customer demand continued to be strong and the organisation remained firmly intact without furloughing, pay-cuts or redundancies. Throughout the challenging period, the Netcall team has shown tremendous flexibility, creativity and resilience, providing support to our customers, especially those within the NHS, and I would like to thank everybody for their contribution.

The new financial year has begun well, with the Group trading strongly and ahead of last year in the first three months. Notwithstanding the positive start to the year and the Group's significant recurring revenues, the Board is mindful of the current economic uncertainty and the impact it may have on customers, which we continue to monitor closely. The acceleration of organisations' digital transformation initiatives represents a significant long-term opportunity for Netcall, and provides the Board with confidence in the future prospects of the Group."

Henrik Bang
CEO of Netcall

View more online at:
netcall.com

Introduction

Netcall delivered an excellent trading performance in the year, achieving double-digit revenue and adjusted EBITDA growth, whilst reacting to the disruption caused by the global pandemic. Our team adapted fantastically to the changes and showed tremendous flexibility, resilience and creativity, quickly delivering innovative solutions to support our customers as they responded to the lockdown measures introduced.

Digital transformation is rapidly advancing across our customer base and key market segments. Solutions enabled by our Liberty platform touch many aspects of our daily lives, whether it be enabling house-buyers to apply for mortgages, to make insurance claims, providing businesses with easy means to apply for COVID-19 business support, enabling hospitals to safely manage socially distanced outpatient appointments. Our COVID-19 related apps and solutions which, with traditional software development might previously have taken months, if not years, to be launched, were live within weeks, helping our customers to support their patients, customers and citizens. This demonstrates the power of our Liberty platform and the ability of our team to combine technology capabilities and business knowledge to create solutions that enable organisations to implement more lean and automated operations, delivering better experiences for their customers and employees.

As a result of solid demand throughout the financial year, cloud ACV grew by 25% to £7.5m (FY19: £6.0m), contributing to a 7% growth in total ACV to £16.8m. The growth in ACV came through new customer wins and cross-sales of our expanded product suite, combined with high customer retention and renewal rates. Low-code and cloud bookings continued to drive sales, while we also saw positive trading performance from product sales.

As a result, revenues increased by 10% to £25.1m, which lifted the Group's adjusted EBITDA by 29% to £4.41m. Low-code subscription revenue grew 29%, contributing to an overall growth in Low-code revenue of 17% to £8.99m (FY19: £7.66m), now representing 36% of Group revenues (FY19: 33%).

The business model is underpinned by our highly profitable and cash generative contact centre and communication revenue streams, which grew 9% in the year. The profits and cash generated from this business sector provide the means to invest in our Low-code and cloud operations, as we continue to capitalise on the rapidly expanding digital automation market opportunity.

Cash collection was particularly strong, resulting in cash generated from operations of £9.39m and Group cash at 30 June 2020 of £12.7m (FY19: £7.77m), of which £2.21m was deferred VAT payments, resulting in a normalised cash position of £10.5m, which exceeds borrowings of £6.75m (FY19: £6.63m).

Response to COVID-19

During February and March 2020, we tested our contingency plans to ensure the organisation was ready when we started working from home in March. The team adapted quickly to the changes, which resulted in minimal disruption to the business, with no negative impact on productivity or ability to support and market to customers.

Due to the pandemic's impact on some of our customers, we adjusted our roadmap priorities to focus on the rapid development of new applications to support them, harnessing the tremendous speed and power of our Low-code platform. This included areas such as enabling home working for customers' employees, assisting hospitals in managing changes to outpatient processes and COVID-19

Case study

Low-code powers operational efficiencies

For this large insurance underwriter battling legacy workflow systems that exacerbated the complexity of its claims handling, they needed to improve internal processes, and the staff and customer experience – including having a better management of workflows. It previously wasn't clear for claims handlers what work was assigned to them, and what the priority status of the work was. And, given that agents manage up to five hundred claims at any one time, with 10 to 15 work items per claim, urgent tasks were at risk of being unintentionally dropped. Missing priority-one tasks, the most important claims, could result in significant financial implications for the company.

Using Netcall's Liberty Create low-code platform, they have developed a highly customisable application that helps manage internal claim workflows and has significantly improved efficiency.

Development process took under three weeks.

- Full deployment in 3 months
- Streamlined customer and colleague journeys around complex claims
- Boosted its Net Promoter Score (NPS) as a result
- Met its goal of processing 8,000 claims within the first six months

Chairman and Chief Executive's review

Continued

responses, as well as supporting councils in providing enhanced citizen and local business support. Today, we have multiple new solutions available, including in our AppShare, and more are in development.

These activities helped underpin continued good demand from our customers in the final quarter, with the healthcare sector in particular performing strongly, where we had an increased uptake of Liberty Converse and Connect, both on premise and for the first time in the cloud, as well as our Low-code platform Liberty Create, through our Patient Hub. The strong performance in healthcare, public sector and financial services offset limited delays and cancellations in some smaller segments of our customer base, such as travel and transportation, where customers faced unprecedented challenges and we worked with them to help them though the initial stage of the crisis. This caused our exit ACV figure to be dampened slightly, but had minimal impact on reported revenue.

As a result of the overall good trading performance, the Group has not been required to introduce pay-cuts, furlough staff or make redundancies, although increased cash management measures, including the deferral of VAT, have been implemented, and the Company retained its strong focus on operational efficiency.

Moving forward, the changes in society brought about by the pandemic, including the workplace, will continue to accelerate organisations' digital transformation initiatives, as they look for ways to better serve their customers, employees and citizens. These changes support long-term significant growth drivers for Netcall.

Low-code and the pandemic

During these adverse times, our public sector customers have been able use Liberty Create to react quickly to changing times. They can download and share apps in our Community.

Croydon Council's local city-based businesses were hard-hit by the lockdown. Government business grants were desperately needed. In days, the team built and launched a business rates claim solution. Applicants can follow their claim progress end-to-end. The office team can check on progress.

South Hams and West Devon Councils fast tracked their Low-code adoption. In one week, they developed and deployed a new Business Rates Relief solution, after downloading the app designed by Croydon from the AppShare and adapted it to their own needs.

Cairn Housing Association teams were concerned about their vulnerable residents. They decided to call vulnerable residents and continually monitor them throughout the pandemic. Within 24 hours, the digital team built a digital workflow process to support staff to make these calls and track the needs of residents.

Cumbria County Council knew volunteer co-ordination and PPE management were critical. Working with users and Liberty Create, they rapidly provided useful solutions.

After hearing about their success, the NHS in Cumbria approached them to build a Track and Trace solution. This supported local multi-agency partnerships, especially schools.

Current trading and outlook

The new financial year has begun well, with the Group trading strongly and ahead of the last fiscal period in the first three months. Notwithstanding the strong start to the current year and significant recurring revenues, the Board is mindful of the current economic disruptions and the impact it may have on customers, which we continue to monitor closely. The acceleration of organisations' digital transformation initiatives presents a significant long-term opportunity for Netcall and provides the Board with confidence in the future prospects of the Group.

Business review

Netcall helps organisations transform their customer engagement activities and enables digital transformation faster and more efficiently, empowering them to improve customer experiences and operational efficiencies. We achieve this by delivering a market-leading software platform, Liberty, that addresses best-in-class customer experience and digital process automation.

The Liberty platform is used by more than 600 organisations, across all sectors including financial services, local government and healthcare, making life easier for the people they serve.

The platform includes three core solutions: Liberty Create – a cloud-based Low-code platform for digital process automation; Liberty Connect – a cloud-based conversational messaging and chatbot platform; and Liberty Converse – a complete omnichannel contact centre platform.

In harmony, these solutions empower business users and IT developers, at a wide-range of organisations including the likes of Hampshire Trust Bank, and Dreams, to collaboratively deliver solutions that support leaner and more customer-centric organisations.

The Group's organic growth strategy for this large and growing market focuses on four core pillars:

- Expansion of our customer base;
- Growth through a land and expand model;
- Continued innovation and enhancement of our platform; and
- Growing our partner base.

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

Expansion of our customer base

We primarily target organisations with large numbers of customers and/or employees and, in many cases, are subject to a high level of regulation. This mainly includes the financial services, healthcare and government sectors, where we currently have a significant market presence, and which generated 84% of Group revenues in 2020. This has provided the Group with resilience during the COVID-19 pandemic, with limited exposure to those sectors more impacted by the lockdown.

Our marketing activities include the recent release of 'LaunchPads', which are groups of applications targeted for particular industry verticals, such as the water industry, which provide prospective customers with an easy entry point to Liberty Create.

New customer implementations include:

- A FTSE100 financial services company used Liberty to streamline a number of complex insurance claims processes and manage the high volume of claims, as well as improving communication with customers while their claim was being processed. Through Liberty Create, the financial services company has now automated processes and customer communications for various insurance products, replacing a legacy implementation.
- A global broadcaster has adopted Liberty to automate and streamline advert bookings across multiple products, which improves efficiency, management and reporting. The Liberty platform has replaced a legacy solution involving significant manual intervention.

£9.0m

Low-code revenue

(2019: £7.7m)

£25.1m

Total revenue

(2019: £22.9m)

Growth through land and expand

Many of our customers initially purchase an entry-level solution with the objective of rolling out further applications over time, and deploying the systems more widely to support their future customer engagement and digital transformation initiatives. This, combined with continuous enhancements to our product portfolio and tighter integration between the various solutions, provides substantial cross-sale and upsell opportunities in three areas:

- Low-code solutions, which represent the largest opportunity as our existing customers digitise and

Chairman and Chief Executive's review

Continued

modernise their operations, enabling them to further leverage their existing Liberty estate. The ACV of a Low-code cross-sale is a significant uplift on the average customer spend, which emphasises the potential value of Low-code sales into the existing customer base;

- Evolution of transitioning our premise-based customers to cloud solutions. This opportunity is in its infancy where we see a growing number of customers 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.

To stimulate cross-sales and fast-track implementations, we are also providing several pre-built accelerators and modules via our AppShare, which supplement the existing Liberty applications. The number of accelerators and modules have now increased to well over 100, several of which have been designed and uploaded by our customers and partners. From launch in September 2019, there are now more than 300 different organisations participating in the community, with developers and business users benefiting from the apps, best practice sharing and previews of new functionality, among other things.

This includes the module Citizen Hub, for local authorities, which is a suite of pre-built business processes and citizen portals that can be downloaded for Liberty Create and integrated with our customer engagement solutions. We have a number of live customers for Citizen Hub and an extensive roadmap of additional applications to be added.

For example, Croydon Council used Liberty Create to build and launch a business rates claim solution in just nine days following the outbreak of COVID-19. The solution included a business register that allowed applicants to follow their claim progress right the way through, enabling the office team to check and process the grants that the business owners desperately needed.

Continued innovation and enhancement of our platform

We continue to invest in the technical enhancement of our Liberty platform, and innovations over the financial year included:

- The incorporation of Google Cloud's Artificial Intelligence services within our Low-code Liberty Create solution, enabling the quick creation of intelligent enterprise applications. We also completed the development of our Low-code Monitor Studio, which enables an organisation to automate the entirety of the software development lifecycle within the Liberty Create platform, deploy through the Controller, develop apps using Build/Code Studios, test using Test Studio and now monitor using Monitor Studio – all on a single platform through a unified interface.
- Within our contact centre solution, Liberty Converse, the development of integrated workforce management, which allows managers to plan shifts and monitor adherence in real-time, ensuring that contact centres are staffed correctly in order to meet customer demand. An integrated softphone for agents that allows calls to be handled directly within the app, means there is no need for separate handsets. Furthermore, we added the ability to queue back-office tasks (such as order processing, expenses, and HR activities) into appropriately skilled agents and thereby automatically distributing all kinds of work, while providing visibility of workload and employee performance. This insight can help improve throughput, achieve SLAs and deliver an enhanced customer experience.
- Within our conversational messaging and bot platform, Liberty Connect: the launch of Web Messaging introduced a new communications channel, enabling consumers

to engage in both inbound and proactive outbound messaging on customer websites. This is complemented by a natural language enabled bot designer for creating tailored conversation flows and intelligent FAQ answers that work seamlessly across web, social, and SMS channels. Moreover, customers can further increase their self-service and automation capabilities by integrating their back-end systems into their bots with the introduction of Connect's app developer framework.

COVID-19 related innovation

A number of innovations on our road-map have been fast-tracked as a result of the COVID-19 pandemic. The increased adoption of Microsoft Teams within our core customer base drove the development of an integration being made available for both Liberty Create and Liberty Converse. Native video was also added to Liberty Create to support virtual appointments within apps built on the Low-code platform. Patient Hub, our digital appointment management service built using Liberty Create, can now deliver COVID-19 results to patients, ask patients to confirm they do not have symptoms before attending appointments, and help hospitals manage patients waiting outside rather than in a waiting room using our 'I've Arrived' app.

Internally, we have also used our Liberty platform to drive digital transformation. This includes our new Liberty Create based CRM system 'Hive', our new support portal 'Nest', and our new help portal 'Docs', on our Liberty Create platform, just like our 'Community' app is managed and driven by Liberty Create. In addition, we are using the latest version of our Liberty Converse, deployed in the Amazon Cloud, AWS, to support customer enquiries.

Growing our partner base

Partners are an important additional route to market, providing the scope to access new markets and scale our business opportunity faster. The aim is to grow revenue via partners significantly by assisting them in creating new offerings and revenue streams from their customers. We are building an eco-system of partners with industry knowledge and delivery and support capabilities, focusing on large organisations with global footprints.

The year saw the launch of a new Managed Service Partner programme, building on the initial success of our partner programme last year. We now offer various packages, each including a mix of sales enablement, marketing support and technical training. The first partners have now signed up to the programme and initial customer wins have been secured. We will continue to grow this part of the business in the year ahead.

New partners include:

- CGI Group, among the largest independent IT and business consulting services firms in the world, with approximately 77,500 consultants and professionals across the globe. CGI Group has developed its own solutions based on Liberty Create.
- Gobeyond, a leading provider of consulting, training, innovative technology and next generation managed services, through whom we won an initial contract supplying Liberty Create to a financial services customer.

£4.4m

Adjusted EBITDA

(2019: £3.4m)

£12.7m

Cash

(2019: £7.8m)

Chairman and Chief Executive's review

Continued

Financial review

The Group's revenue comprises the following components:

- Cloud services: revenue subscription and usage fees for 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: software license sales with supporting hardware.
- Professional services: consultancy, implementation and training services.

The Group continues its transition to a digital cloud business, having reached an inflection point last year, with new Cloud services bookings continuing to exceed new Product and Product support contract sales.

Group revenue increased 10% to £25.1m (FY19: £22.9m), of which Low-code solutions now represent £8.99m (FY19: £7.66m) of Group revenues, increasing 17% in the year.

As a result of the change in sales mix towards recurring revenue models, total ACV at 30 June 2020 increased by 7% year over year to £16.8m, with Cloud service ACV up 25% year over year to £5.4m. ACV, as at 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. The table below sets out ACV at the end of the last three financial years:

£m ACV	**FY20**	FY19	FY18
Low-code	**5.4**	4.5	3.3
Liberty cloud	**2.1**	1.5	1.5
Total cloud	**7.5**	**6.0**	**4.8**
Support contract	**9.3**	9.7	9.4
Total	**16.8**	**15.7**	**14.2**

The table below sets out revenue by component for the last three financial years:

£m Revenue	**FY20**	FY19	FY18
Cloud services	**6.6**	5.7	4.3
Product support contracts	**9.6**	9.3	8.9
Total Cloud services and Product support contracts	**16.1**	**15.0**	**13.2**
Communication services	**1.9**	1.8	2.3
Product	**3.1**	2.3	3.1
Professional services	**4.0**	3.8	3.3
Total	**25.1**	**22.9**	**21.9**

Revenue from Cloud services increased by 14% to £6.55m (FY19: £5.74m), reflecting the higher year over year Cloud service ACV. The comparative period figure included a one-off termination fee of £0.5m which, excluding this, gives an underlying growth rate of 25%.

Product support contract revenue increased by 3% to £9.56m (FY19: £9.26m) as a result of the contribution of new product sales and price rises.

Cloud service and product support contract revenues, which are recurring in nature, total £16.1m (FY19: £15.0m) are 64% of overall revenues (FY19: 66%).

Communication services revenue increased by 7% to £1.93m (FY19: £1.81m) due to higher application driven messaging volumes and call-back usage.

Product revenue increased by 34% to £3.07m (FY19: £2.29m) due to higher sales to NHS and Public Sector organisations.

Professional services revenue increased 5% to £4.01m (FY19: £3.81m) due to demand for implementation services for Cloud service and Product solutions. The overall demand for our professional services is dependent on:

- the mix of direct and indirect sales of our solutions, in the latter case our partners provide the related services directly for the end customer; and
- whether a customer requires the support of a full application development service or support to enable their own development teams.

Gross profit margin was 88% (FY19: 90%) mainly due to an increase in outsourced and insourced consultants from partners to supplement our in-house teams in delivering professional services.

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition related items, increased to £17.8m (FY19: £17.1m), reflecting an underlying increase of 5%, a result of the previously announced investment programme into our business, offset by a reduction of £0.30m in operating lease payments following the Group's adoption of IFRS 16 'Leases' (see note 8 for further information).

Consequently, Group adjusted EBITDA on an IFRS 16 basis increased by 29% to £4.41m (FY19: £3.41m), a margin of 18% of revenue (FY19: 15%). Adjusted EBITDA on an IAS 17 basis increased by 21% to £4.12m (see note 2 for further information).

Profit before tax was £0.50m (FY19: £0.75m), after accounting for acquisition related items and interest on borrowings taken out to fund the acquisition of MatsSoft in August 2017, and higher depreciation and amortisation of capitalised development.

The Group tax charge of £0.01m (FY19: £0.14m) represents an effective rate of tax of 1% (FY19: 10%) on adjusted profit before tax. The underlying effective rate of tax is lower than the headline rate of corporation tax principally due to deductions for R&D expenditure.

Basic earnings per share was 0.34 pence (FY19: 0.43 pence) and increased by 27% to 1.01 pence on an adjusted basis (FY19: 0.80 pence). Diluted earnings per share was 0.33 pence (FY19: 0.41 pence) and increased 28% to 0.97 pence on an adjusted basis (FY19: 0.76 pence).

Cash generated from operations increased by 37% to £9.39m (FY19: £6.84m), a conversion of 213% (FY19: 202%) of adjusted EBITDA. The normalised cash conversion rate was 163% when adjusted for £2.21m of VAT payments that were deferred due to COVID-19 until March 2021. In addition, the comparative including £0.30m of rental payments under IAS 17 Leases, which are now accounted as lease liabilities under IFRS 16 Leases (see note 8(b)).

Spending on research and development, including capitalised software development, was £3.59m (FY19: £3.21m), of which capitalised software expenditure was £1.71m (FY19: £1.53m).

Total capital expenditure was £1.86m (FY19: £2.96m); the balance after capitalised development, being £0.16m (FY19: £1.43m), was significantly lower as the comparative period included new office fit-out.

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. In October 2019, the fair value of the remaining contingent consideration was re-estimated at £1.76m, resulting in £0.04m being debited to the income statement as a change in estimate of fair value. During the period, the Company paid £1.76m, comprising £1.68m in cash and £0.08m in shares under this arrangement, bringing the total consideration paid to £15.6m. No further payments are expected under this agreement.

To support the acquisition, the Company issued a £7m Loan Note. Interest payments under the Loan Note in the period totalled £0.48m (FY19: £0.59m). The Loan Note is unsecured and is repayable in six instalments from 30 September 2022 to 31 March 2025. See note 7(f) for further information.

The Group applied IFRS 16 Leases for the first time, whereby it recognised lease liabilities in relation to leases that had previously been classified as operating leases under the principles of IAS 17 Leases. IFRS 16 was adopted using the modified retrospective approach and lease liabilities of £0.90m, and a right-of-use asset of £0.82m were recognised on 1 July 2019. See note 8 (b) for further information.

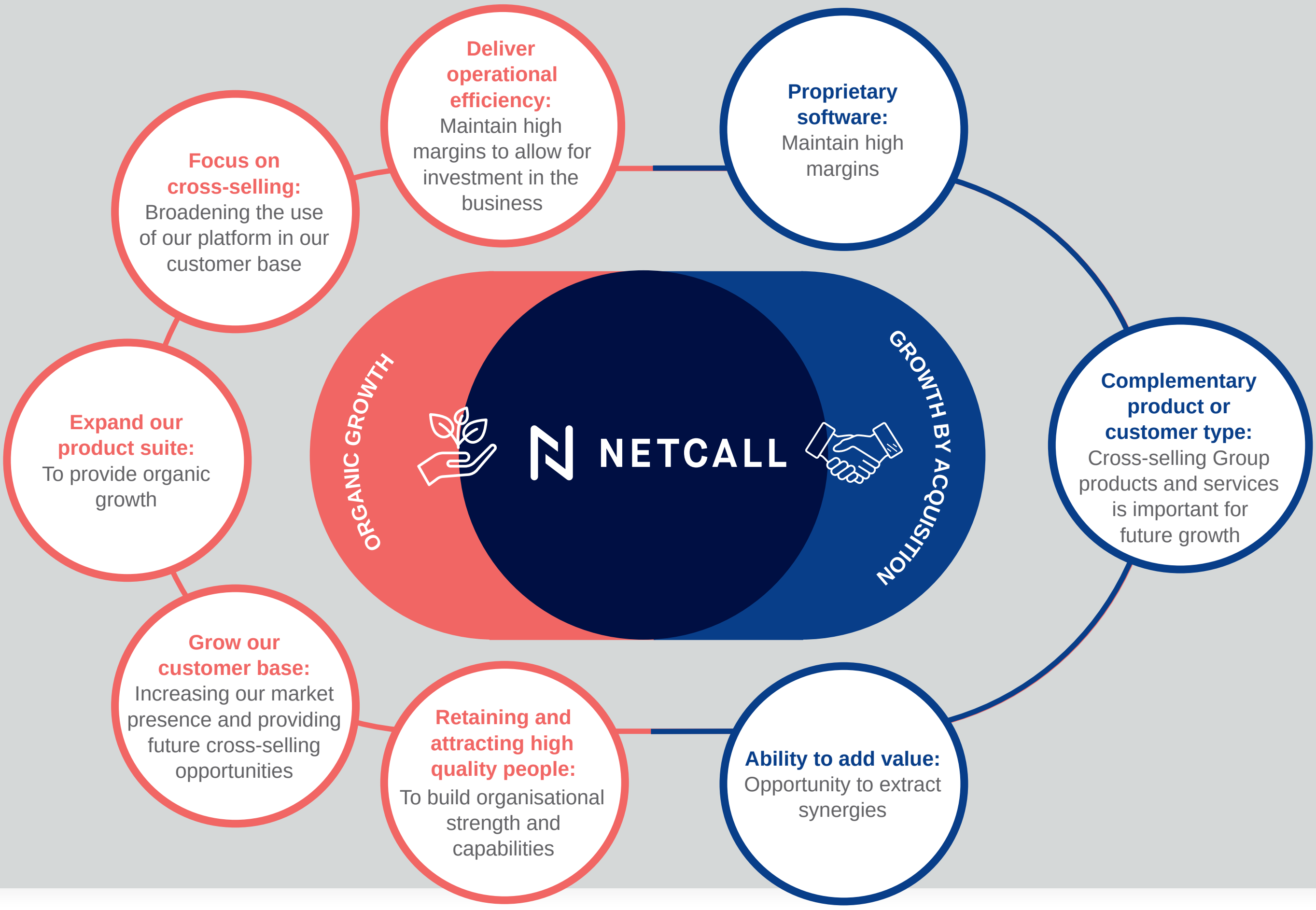
As a result of these factors, net funds were £4.82m at 30 June 2020 (30 June 2019: £1.14m). See note 10(a) for further information.

Dividend

In line with the Company's dividend policy to pay out 25% of adjusted earnings per share, the Board is proposing a final dividend for this financial year of 0.25p (FY19: 0.20p). If approved, the final dividend will be paid on 9 February 2021 to Shareholders on the register at the close of business on 29 December 2020.

Henrik Bang
CEO of Netcall

Business model



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 and Chief Executive's review:

	2020	2019	Change
Revenue (£m)	**25.1**	22.9	+10%
Revenue recurring in nature (£m)	**18.0**	16.8	+7%
Gross profit margin (%)	**88%**	90%	-2%
Adjusted EBITDA (£m)	**4.41**	3.41	+29%
Cash generated from operations before payment of non-recurring transaction costs (£m)	**9.39**	6.84	+37%
Total equity (£m)	**22.9**	21.9	+4%

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 trading arrangements between the UK and EU at the end of the Brexit transition period in December 2020; and the effect of the COVID-19 pandemic 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.
Pandemic • The outbreak of COVID-19 could cause shortage of staff if they become ill or disruption to the supply of components for our on-premise products.	• All employees in are able to work remotely from home during the pandemic. Due to the digital and physically remote nature of our technology and solutions, we are able to maintain high service levels during these periods. We continually monitor our suppliers to ensure the components we require for our on-premise solutions are available.
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, which meet changing customer requirements and incorporate technological advancements.	• The Group continues to monitor the market place for competitor development and maintains a significant investment in research and development.

Principal risks and uncertainties

Continued

Risk area and potential impact	Management of risks
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 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.

Section 172(1) statement

Introduction

The Directors are aware of their duty under section 172 of the Companies Act 2006 to act in the way that they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole.

They consider:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly with members of the Company.

Our stakeholders

To operate effectively it is important to understand the impact upon the stakeholders we interact with most. We have identified our key stakeholders to be:

- our customers and suppliers;
- our employees;
- the wider communities in which we operate; and
- our investors.

The Board will sometimes engage directly with certain stakeholders. However, most engagement takes place at the Executive level. Where direct engagement is not possible, the Board receive updates from Executives on key areas on a regular basis, for use in its decision making.

Further details

For further details of how the Board operates and the way in which it makes decisions, including key activities during the financial year ended 30 June 2020 and Board governance, see pages 19 to 24 and the Board Committee reports thereafter.

It is the Group's policy to manage and operate worldwide business activities in conformity with applicable laws and regulations as well as with the highest ethical standards. Both the Group's Board of Directors and senior management team are determined to comply fully with the applicable law and regulations, and to maintain the Company's reputation for integrity and fairness in business dealings with third parties.

This Strategic Report was approved by the Board on 12 October 2020 and signed on its behalf by:

James Ormondroyd
Director
12 October 2020

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 2020.

Results and dividends

The Group's profit for the year after tax was £0.49m (2019: £0.61m).

Subject to Shareholder approval at the Annual General Meeting to be held on 17 December 2020, the Board proposes paying a final ordinary dividend of 0.25 pence per share (2019: 0.20 pence per share). The estimated amount payable is £0.36m (2019: £0.29m).

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 £3.59m (2019: £3.21m), comprising £1.88m in the Consolidated income statement (2019: £1.68m) and £1.71m capitalised development expenditure (2019: £1.53m).

Political donations and political expenditure

In accordance with the Board's policy, no political donations were made or expenditure incurred during the year (2019: £nil).

Post balance sheet events

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

Directors and Directors' interests

The Directors, who held office during the year ended 30 June 2020 and up to the date of approval of these financial statements, unless otherwise stated, are as follows:

Henrik Bang	Chief Executive
James Ormondroyd	Group Finance Director
Michael Jackson	Chairman and Non-Executive Director
Michael Neville	Non-Executive Director
Tamer Ozmen	Non-Executive Director (appointed 21 November 2019)

Biographical details of persons currently serving as directors are set out on page 18.

Directors' remuneration

As the Company is quoted on the AIM 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 considering an overall view of the Group's performances and its assessment of financial and personal performance. In the year ended 30 June 2020, performance against targets resulted in a bonus award of 64% of salary for Henrik Bang and 64% 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
Tamer Ozmen	21 November 2019	3 months

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

	2020				2019
	Salary and fees £000	**Benefits in kind £000**	**Bonus £000**	**Total £000**	Total £000
Executive Directors					
Henrik Bang	**298**	**21**	**191**	**510**	384
James Ormondroyd	**219**	**18**	**134**	**371**	278
Non-Executive Directors					
Michael Jackson	**57**	**–**	**–**	**57**	57
Michael Neville	**36**	**–**	**–**	**36**	35
Tamer Ozmen	**18**	**–**	**–**	**18**	–
	628	**39**	**325**	**992**	754

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

	2020 £000	2019 £000
Executive Directors		
Henrik Bang	**25**	22
James Ormondroyd	**9**	10
	34	32

The table below sets out share options granted to Directors and exercised during the year:

	Earliest exercise date	Expiry date	Exercise price pence	Number at 1 July 2019	Exercised in year	Number 30 June 2020
Henrik Bang						
29.04.14[1]	30.04.17	30.04.21	5.0	7,000,000	400,000	6,600,000
James Ormondroyd						
29.04.14[1]	30.04.17	30.04.21	5.0	4,100,000	–	4,100,000
Michael Jackson						
29.04.14[1]	30.04.17	30.04.21	5.0	1,000,000	327,780	672,220
				12,100,000	727,780	11,372,220

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 2021; 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 2020 was 36.5 pence. During the financial year the share price reached a high of 44.0 pence and a low of 21.8 pence.

Details of options exercised by Directors during the year are as follows:

	Number of shares	Exercise price pence	Mid-market share price on date of exercise pence	Gain on exercise £000
Henrik Bang	400,000	5.0	33.5	114
Michael Jackson	327,780	5.0	33.5	93
	727,780			207

Directors' report

Continued

Directors' indemnity and insurance

The Group maintained insurance cover during the year for its Directors and Officers and those of subsidiary companies under a Directors and officers liability insurance policy against liabilities that 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 then 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. 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.

Corporate governance

The Company's statement on corporate governance can be found in the corporate governance statement on pages 19 to 24 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. Employees participate where possible in incentive schemes to share in the success of the Group.

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

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

Policy and practice on payment of creditors

The Group recognises the importance of good relationships with its suppliers and subcontractors. Although the Group does not follow any particular code or standard on payment practice, its established payment policy is to agree payment terms in advance of any commitment being entered into and to seek to abide by these agreed terms provided that the supplier has also complied with them. Trade creditor days for the Company for the year were 13 days (2019: 10 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 that 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 2020, the share capital of the Company consisted of 144,379,983 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.

Auditor

Grant Thornton UK LLP, who were re-appointed on 21 November 2019, 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 on 17 December 2020 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
12 October 2020

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 auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

By order of the Board

James Ormondroyd
Director
12 October 2020

Directors and advisers

Chairman

Michael Jackson*^~(70) 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 FTSE100 companies and from 1997 until August 2006 was Chairman of The Sage Group plc.

Chief Executive Officer

Henrik Bang (62) 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 (48) 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 Directors

Michael Neville*^~ (66) 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, corporate restructuring and strategic development, and serves as a Non-Executive Director for a number of companies across a wide spectrum of industry sectors. His background is in the telecommunications and technology and media arena.

Tamer Ozmen (58) was appointed to the Netcall Board on 21 November 2019. He is an experienced technology professional with a background in the implementation of digital transformation projects. He has over 20 years' experience in senior management positions including CEO of Microsoft Turkey and most recently as Head of Microsoft Consultancy Services in the UK. He has also been Group Vice President of Online and Multichannel at Orange S.A. and is a non-executive director of Charles Taylor.

* denotes membership of the Audit sub-committee of the Board

^ denotes membership of the Remuneration sub-committee of the Board

~ denotes membership of the Nomination sub-committee of the Board

Company registration number:	01812912
Registered office:	1st Floor Building 2 Peoplebuilding Estate Maylands Avenue Hemel Hempstead Hertfordshire HP2 4NW
Directors:	M Jackson H Bang J Ormondroyd M Neville T Ozmen
Secretary:	M Greensmith
Bankers:	Lloyds Bank plc Black Horse House Progression Centre 42 Mark Road Hemel Hempstead HP2 7DW
Nominated advisers:	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Registrars:	Neville Registrars Limited Neville House Steelpark Road Halesowen B62 8HD
Solicitors:	TaylorWessing LLP 5 New Street Square London EC4A 3TW
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 2018’). The Board chose to apply this code as it believes that it is more suitable for small and mid-size companies.

The QCA Code 2018 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 2018.

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 upsell 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 that 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 CFO are the key Shareholder liaison contacts. Shareholders can approach the Chairman or Non-Executive Directors 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 results announcements; trading updates; the Annual General Meeting (AGM); and 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 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 five directors, of which two are executives and three are non-executives. The Executive Directors work full-time for Netcall. The Chairman and 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 2018 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 2018 as two non-executives are not deemed to be independent as:

- 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; and
- 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.

Tamer Ozmen was appointed to the Board on 21 November 2019. Mr Ozmen provides consulting services to Gresham House Asset Management Ltd ('Gresham House') in relation to their investments in private technology companies. His consultancy work does not extend to Gresham House's investments in publicly listed companies, including Netcall. Through their managed funds, Gresham House is the Company's largest shareholder. He does not believe his consultancy agreement with Gresham House interferes with his exercise of independent judgment, and therefore he considers himself to be an independent director.

The Board has three committees: audit, remuneration and nomination. The Board does not comply with the QCA Code 2018'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 Michael Jackson and Michael Neville 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. The QCA Code 2018 recognises that certain of its recommendations may not be suitable for growing companies and your Board considers that its present directors provide a wide range of expertise that benefits the Group and its stakeholders.

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	11	11	–	3(1)	–	–	–	–
James Ormondroyd	11	11	–	3(1)	–	–	–	–
Non-Executive Directors								
Michael Jackson	11	11	3	3	2	2	1	1
Michael Neville	11	11	3	3	2	2	1	1
Tamer Ozmen	8	8	–	1(1)	–	–	–	–

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

Corporate governance statement

Continued

Principle 6 – Ensure that between them the Directors have all necessary up to date experience, skills and capabilities

All five members of the Board bring relevant sector experience in technology, four members 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, courses 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 30 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 FTSE100 company The Sage Group plc. He was also chairman of PartyGaming plc, another FTSE100 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, corporate restructuring and strategic development, and serves as a Non-Executive Director for a number of companies across a wide spectrum of industry sectors. His background is in the telecommunications, technology and media arenas.

Tamer Ozmen, Non-Executive Director

Term of office: Joined as a Non-Executive Director on 21 November 2019.

Background and suitability for the role: Tamer Ozmen is an experienced technology professional with a background in the implementation of digital transformation projects. He has over 20 years' experience in senior management positions including CEO of Microsoft Turkey and most recently as head of Microsoft Consultancy Services in the UK. Tamer has also been Group Vice President of Online and Multichannel at Orange S.A. and is a non-executive director of Charles Taylor.

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 multi-national 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 2018 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. Michael Neville was proposed for re-election and re-appointed in 2019 and Michael Jackson is proposed for re-election this year. Tamer Ozmen having been co-opted to the Board on 21 November 2019 is proposed for election at the Company's Annual General Meeting on 17 December 2020.

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

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

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

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

The Group's long-term growth is underpinned by a set of value-based operating principles. These have regularly been reviewed and adapted as the Group has developed and centres on customer focus, innovation, integrity, quality and teamwork. The culture of the Group is characterised by these values, and they are communicated widely including within the Group's competency framework, which sets out how we want our colleagues to work within Netcall, 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 Michael Jackson and Michael Neville. It is chaired by Michael Neville and 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 Michael Jackson and Michael Neville. It is chaired by Michael Neville and 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 Michael Jackson and Michael Neville. It is chaired by Michael Jackson and met once formally during the year. Members of the committee discuss these matters regularly in Board meetings.

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

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

Corporate governance statement

Continued

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

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

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

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

The matters reserved for the Board are:

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

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 three times, and the external auditor and the CEO and CFO were invited to attend these meetings. Consideration was given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in both the annual and interim reports. The committee reviewed the independence and performance of the external auditor.

Remuneration Committee Report

During the period under review, the Remuneration Committee:

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

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

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

Michael Jackson
Chairman
12 October 2020

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 2020, 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 2020 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and the parent company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group and parent company associated with these particular events.

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.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's and the parent company's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's and the parent company's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and the parent company will continue in operation.

Independent Auditor's report to the members of Netcall plc

Continued

Overview of our audit approach

- Overall materiality: £160,000, which represents approximately 0.6% of the group's revenue at the planning stage;
- We performed full scope audit procedures on Netcall plc, Telephonetics Limited, Netcall Technology Limited and Netcall Systems 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
  - 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.

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 £25.1m, (2019: £22.9m) in the year, which includes revenue from Cloud Services, Communication Services, Product Support, Product and Services. Contracts include software licences, maintenance and hardware performance obligations. These performance obligations and associated revenues are separated and recognised accordingly. The audit team considers that the significant risk in Product Revenue, Product Support Revenue and Services Revenue relates to the occurrence of revenue and judgement made by management in respect of stage of completion of open contracts at the year-end. The significant risk for Cloud Services is around occurrence and accuracy where revenue is recognised over time. The significant risk for Communication Services is around occurrence, as revenue is based on usage or transaction volumes. For all revenue streams noted above, the significant risks noted above are considered to be at the level of management override rather than at the transactional level. We therefore identified the risk of improper recognition of revenue due to fraud 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 accounting policies adopted are in accordance with the financial reporting framework, including IFRS 15, and checking whether management has accounted for revenue in accordance with the accounting policies; • assessing the application of IFRS 15 for each revenue stream and in particular whether the performance obligations are distinct, whether they 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 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 or 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 and therefore at a higher risk of being fraudulent. The group's accounting policy on revenue recognition is shown in note 3(f) and 20(e) to the financial statements and related disclosures are included in note 3. ***Key observations*** Our audit testing did not identify any material misstatements in the revenue recognised during the year, which based on our audit work, has been recognised in accordance with the group's accounting policies set out in notes 3(f) and 20(e).

Key Audit Matter for the group	How the matter was addressed in the audit
Risk of impairment of goodwill and other intangible assets. At 30 June 2020, the group had goodwill of £22.8m (2019: £22.8m). In accordance with International Accounting Standard 36, 'Impairment of Assets', an annual impairment review is required to be performed by management for goodwill 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 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 the financial reporting framework, including IAS 36, and checking whether management have applied it appropriately; • comparing the carrying value of the cash generating unit to management's value in use calculations; • checking the mathematical accuracy of the impairment models; • challenging management and checking the 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 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 • assessing the adequacy of related disclosures within the annual report and financial statements. The group's accounting policy on impairment of assets, including goodwill, is shown in note 20(i) and related disclosures are included in note 8(c) to the financial statements. ***Key observations*** Our testing did not identify any material misstatements relating to the impairment of goodwill included on the consolidated balance sheet.

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
Going concern As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. As such we identified going concern 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: • Obtaining management's base case forecasts covering the period to December 2021, assessing how these forecasts were compiled and assessing their appropriateness by applying sensitivities to the underlying assumptions, which we also challenged; • Assessing the accuracy of management's forecasting by comparing the reliability of past forecasts to the base case forecast; • Obtaining management's extreme scenario prepared to assess the potential impact of Covid-19, evaluating the assumptions regarding the impact of an extended lockdown period and delays in cash receipts from customers and considering whether the assumptions are consistent with our understanding of the business derived from other detailed work undertaken; • Assessing the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available facilities; and • Assessing the adequacy of related disclosures within the 2020 annual report and accounts. The group's going concern accounting policy and related disclosures are shown in the going concern note within note 20(a) to the financial statements. ***Key observations*** We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

Our application of materiality

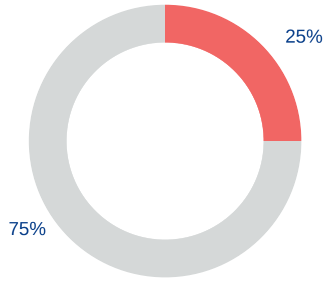
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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

Materiality was determined as follows:

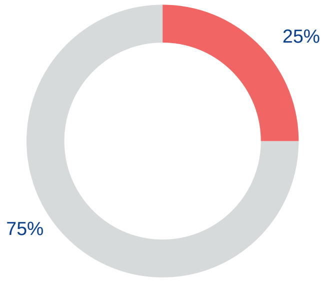
Materiality measure	Group	Parent
Financial statements as a whole	£160,000, which is approximately 0.6% of the group's revenue figure from the planning stage of the audit. This benchmark is considered the most appropriate because the group continues to implement a growth investment programme. Materiality for the current year is lower than the level that we determined for the year ended 30 June 2019, to reflect the increased uncertainty and risk in the market.	£150,000, which is based on 1% of the parent company's total assets, restricted to 94% of group materiality, so as not to exceed group materiality. This benchmark is considered the most appropriate because the parent company does not generate its own earnings and acts as a holding company for the group, and therefore an assets-based benchmark is appropriate. Materiality for the current year is lower than the level that we determined for the year ended 30 June 2019, to reflect the lower group materiality this year and the restriction of parent company component materiality to a percentage of group materiality referred to above.
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	£8,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£7,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

Overall materiality – Group



Overall materiality – Parent company



Tolerance for potential uncorrected mis-statements   Performance materiality

Independent Auditor's report to the members of Netcall plc

Continued

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- An assessment of the group's centralised processes and controls over the key areas of our audit focus. Group management is responsible for all judgemental processes and significant risk areas. All accounting is centralised, and we have tailored our audit response accordingly with all audit work undertaken by the same UK based audit engagement team. In assessing the risk of material misstatement to the group financial statements we considered the transactions undertaken by each component and therefore where the focus of our work was required;
- An evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. We determined significance as a percentage of the group's total assets, revenue and profit/(loss) before tax;
- We performed full scope audits of the financial statements of the parent company Netcall plc and of the financial information of the significant components Telephonetics Limited, Netcall Technology Limited and Netcall Systems Limited. This gave us coverage of 98% of consolidated revenue and 99% of consolidated total assets; and
- We performed specified audit procedures on the financial information of MatsSoft Limited and Netcall Systems Inc. All other components are insignificant to the group or are dormant, so analytical procedures were undertaken on the financial information of those components using group materiality.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 2020 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 17, 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 acc ept 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.

Nick Jones
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
12 October 2020

Consolidated income statement

for the year ended 30 June 2020

	Notes	2020 £000	2019 £000
Revenue	3	**25,114**	22,903
Cost of sales		**(2,930)**	(2,329)
Gross profit		**22,184**	20,574
Administrative expenses		**(20,926)**	(19,058)
Other losses	5(a)	**(24)**	(11)
Adjusted EBITDA	2	**4,413**	3,411
Depreciation	8(a), 8(b)	**(657)**	(310)
Net loss on disposal of property, plant and equipment		**–**	(2)
Amortisation of acquired intangible assets	8(c)	**(483)**	(512)
Amortisation of other intangible assets	8(c)	**(1,344)**	(1,120)
Change in fair value of contingent consideration	4(a)	**(37)**	865
Post completion services	4(b)	**(33)**	(244)
Share-based payments	18(c)	**(625)**	(583)
Operating profit		**1,234**	1,505
Finance income	5(e)	**38**	41
Finance costs	5(e)	**(775)**	(794)
Finance costs – net		**(737)**	(753)
Profit before tax		**497**	752
Tax charge	6	**(10)**	(142)
Profit for the year		**487**	610
Earnings per share		**Pence**	Pence
Basic	19(a)	**0.34**	0.43
Diluted	19(a)	**0.33**	0.41

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 37 to 73 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 £000	2019 £000
Profit for the year		**487**	610
Other comprehensive income			
Items that may be reclassified to profit or loss			
– Exchange differences arising on translation of foreign operations	9(c)	**(14)**	(17)
Total other comprehensive income for the year		**(14)**	(17)
Total comprehensive income for the year		**473**	593

All of the comprehensive income for the year is attributable to the Shareholders of Netcall plc. The notes on pages 37 to 73 form part of these financial statements.

Consolidated balance sheet

as at 30 June 2020

	Notes	2020 £000	2019 £000
Assets			
Non-current assets			
Property, plant and equipment	8(a)	**960**	1,210
Right-of-use assets	8(b)	**970**	–
Intangible assets	8(c)	**29,078**	29,188
Deferred tax assets	8(d)	**482**	501
Financial assets at fair value through other comprehensive income	7(c)	**72**	72
Total non-current assets		**31,562**	30,971
Current assets			
Inventories	8(e)	**139**	165
Other current assets	8(f)	**1,392**	1,314
Contract assets	3(c)	**585**	1,178
Trade receivables	7(a)	**3,957**	3,864
Other financial assets at amortised cost	7(b)	**4**	100
Cash and cash equivalents	7(d)	**12,710**	7,769
Total current assets		**18,787**	14,390
Total assets		**50,349**	45,361
Liabilities			
Non-current liabilities			
Contract liabilities	3(c)	**104**	207
Borrowings	7(f)	**6,745**	6,632
Lease liabilities	8(b)	**902**	–
Deferred tax liabilities	8(d)	**842**	851
Provisions	8(g)	**–**	77
Total non-current liabilities		**8,593**	7,767
Current liabilities			
Trade and other payables	7(e)	**6,907**	5,265
Contract liabilities	3(c)	**11,724**	10,395
Lease liabilities	8(b)	**248**	–
Total current liabilities		**18,879**	15,660
Total liabilities		**27,472**	23,427
Net assets		**22,877**	21,934
Equity attributable to owners of Netcall plc			
Share capital	9(a)	**7,312**	7,259
Share premium	9(a)	**3,015**	3,015
Other equity	9(b)	**4,900**	4,832
Other reserves	9(c)	**3,996**	4,440
Retained earnings		**3,654**	2,388
Total equity		**22,877**	21,934

The notes on pages 37 to 73 form part of these financial statements. These financial statements on pages 32 to 73 were approved and authorised for issue by the Board on 12 October 2020 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 2020

	Notes	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2018		**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 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 as originally presented		**7,259**	**3,015**	**4,832**	**4,440**	**2,388**	**21,934**
Change in accounting policy	8(b)	–	–	–	–	14	14
Restated balance at 30 June 2019		**7,259**	**3,015**	**4,832**	**4,440**	**2,402**	**21,948**
Issue of ordinary shares as consideration for an acquisition in a business combination	9(a), 9(b)	14	–	68	–	–	82
Proceeds from share issue	9(a)	39	–	–	–	–	39
Increase in equity reserve in relation to options issued	9(c)	–	–	–	622	–	622
Tax credit relating to share options	6(d)	–	–	–	–	–	–
Reclassification following exercise or lapse of options	9(c)	–	–	–	(1,052)	1,052	–
Dividends paid	13(b)	–	–	–	–	(287)	(287)
Transactions with owners		**53**	**–**	**68**	**(430)**	**765**	**456**
Profit for the year		–	–	–	–	487	487
Other comprehensive income		–	–	–	(14)	–	(14)
Total comprehensive income for the year		**–**	**–**	**–**	**(14)**	**487**	**473**
Balance at 30 June 2020		**7,312**	**3,015**	**4,900**	**3,996**	**3,654**	**22,877**

The notes on pages 37 to 73 form part of these financial statements.

Consolidated cash flow statement

for the year ended 30 June 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Profit before income tax		**497**	752
Adjustments for:			
– Depreciation and amortisation		**2,484**	1,942
– Loss on disposal of property, plant and equipment		**–**	2
– Share-based payments		**625**	583
– Net finance costs – net		**737**	753
– Other non-cash expenses		**1**	–
Changes in operating assets and liabilities, net of effects from purchasing of subsidiary undertaking:			
– Decrease in inventories		**26**	51
– (Increase)/decrease in trade receivables		**(92)**	2,216
– Decrease in contract assets		**589**	252
– Decrease in other financial assets at amortised cost		**100**	24
– Increase in other current assets		**(107)**	(257)
– Increase/(decrease) in trade and other payables		**3,334**	(242)
– Increase in contract liabilities		**1,223**	862
– Decrease in provisions		**(29)**	(95)
Cash generated from operations		**9,388**	6,843
Interest received		**38**	41
Interest paid		**(6)**	(4)
Net cash inflow from operating activities		**9,420**	6,880
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	7(g)	**(1,679)**	(591)
Payment for property, plant and equipment	8(a)	**(146)**	(1,078)
Payment of software development costs	8(c)	**(1,708)**	(1,532)
Payment for other intangible assets	8(c)	**(9)**	(350)
Proceeds from sale of property, plant and equipment		**–**	1
Net cash outflow from investing activities		**(3,542)**	(3,550)
Cash flows from financing activities			
Proceeds from issues of ordinary shares	9(a)	**39**	16
Interest paid on Loan Notes		**(478)**	(590)
Principle element of lease payments	8(b)	**(199)**	–
Dividends paid to Company's Shareholders	13(b)	**(287)**	(758)
Net cash outflow from financing activities		**(925)**	(1,332)
Net increase in cash and cash equivalents		**4,953**	1,998
Cash and cash equivalents at beginning of the financial year		**7,769**	5,779
Effects of exchange rate on cash and cash equivalents		**(12)**	(8)
Cash and cash equivalents at end of financial year		**12,710**	7,769

The notes on pages 37 to 73 form part of these financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2020

1 Significant changes in the current reporting period

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

- The Group opted to deferred £2.21m of VAT payments that would usually have been paid between 20 March and 30 June 2020 under the coronavirus (COVID-19) VAT deferral scheme. This resulted in cash flows from operations and trade and other payables being £2.21m higher than would have been the case without deferral. The deferred amount is due for payment by 31 March 2021 and no penalties or interest for late payment will be charged by HMRC.
- The adoption of the new accounting standard on IRFS 16 'Leases' (see note 8(b)). This resulted in: the recognition of right-of-use assets of £0.82m and lease liabilities of £0.90m on 1 July 2019; and a reduction in operating lease expenses of £0.30m and increase in depreciation of £0.26m and interest of £0.03m compared to the prior year.
- The Group paid £1.76m (2019: £0.59m) in contingent consideration relating to the acquisition of Netcall Systems Limited (formerly MatsSoft Limited) (see note 4(a)).

For a detailed discussion about the Group's performance and financial position please refer to the Chairman and Chief Executive's review on pages 2 to 9.

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:

	2020 £000	2019 £000
Adjusted EBITDA[1]	**4,413**	3,411
Depreciation[1]	**(657)**	(310)
Net loss on disposal of property, plant and equipment	**–**	(2)
Amortisation of acquired intangible assets	**(483)**	(512)
Amortisation of other intangible assets	**(1,344)**	(1,120)
Change in fair value of contingent consideration	**(37)**	865
Post completion services	**(33)**	(244)
Share-based payments	**(625)**	(583)
Operating profit	**1,234**	1,505

[1] Until 30 June 2019, property leases payments of £0.30m were treated as an operating lease expense within EBITDA. From 1 July 2019, leases are recognised as a right-of-use asset with a corresponding depreciation expense of £0.26m.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

2 Segment information continued

In order to show the impact of IFRS 16 and to facilitate a comparison of results with the prior year, a reconciliation is presented below of for the year ended 30 June 2020 as reported on an IFRS 16 basis with the former IAS 17 basis.

£000	30 June 2020 (IFRS 16 basis)	IFRS 16 impact	30 June 2020 (IAS 17 basis)
Adjusted EBITDA	**4,413**	**(297)**[1]	**4,116**
Depreciation	(657)	261[2]	(396)
Amortisation of acquired intangible assets	(483)	–	(483)
Amortisation of other intangible assets	(1,344)	–	(1,344)
Change in fair value of contingent consideration	(37)	–	(37)
Post-completion services	(33)	–	(33)
Share-based payments	(625)	–	(625)
Finance costs – net	(737)	32[3]	(705)
Profit before tax	**497**	**(4)**	**493**

[1] Reduced lease rental charge on IFRS 16 basis
[2] Additional depreciation on right-of-use asset recognised under IFRS 16
[3] Additional interest cost on leases recognised under IFRS 16

2(c) Segment assets and liabilities

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

3 Revenue from contracts with customers

3(a) Revenue by category

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:

	2020 £000	2019 £000
Cloud services	**6,553**	5,741
Communication services	**1,929**	1,805
Product support contracts	**9,555**	9,253
Product	**3,065**	2,285
Services	**4,012**	3,819
	25,114	22,903
Timing of revenue recognition:		
– At a point in time	**4,994**	4,091
– Over time	**20,120**	18,812

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 £23.9m (2019: £21.7m), and the total from external customers from other countries is £1.2m (2019: £1.2m).

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:

	2020 £000	2019 £000
Trade receivables	**3,957**	3,864
Contract assets	**585**	1,178
Contract liabilities – current	**11,724**	10,395
Contract liabilities – non-current	**104**	207

Trade receivables at the year-end was broadly in line with the prior year. Contract assets have decreased by £0.59m as fewer products and services were delivered ahead of agreed payment schedules. Contract liabilities have increased by £1.23m primarily 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:

	2020 £000	2019 £000
Amounts included in contract liabilities at the beginning of the year	**9,850**	9,302
Performance obligations satisfied in previous years	**–**	–

3(e) Unsatisfied long-term contracts

The unsatisfied performance obligations for communications services, product and professional services revenues are 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:

	2020 £000	2019 £000
Within one year	**12,761**	11,395
More than one year	**10,152**	10,700

3(f) Accounting policies and significant judgements

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 that 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

3 Revenue from contracts with customers continued

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 that 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.

4 Material profit or loss items

The Group identified a number of items that 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	2020 £000	2019 £000
Change in fair value of contingent consideration	4(a)	**(37)**	865
Post-completion services expense	4(b)	**(33)**	(244)
		(70)	621

4(a) Change in fair value of contingent consideration

The purchase agreement of Netcall Systems Limited (formerly MatsSoft Limited) provided for potential further cash and shares to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. In October 2019, the fair value of the remaining contingent consideration was re-estimated at £1.76m resulting in £0.04m being debited to the income statement as a change in estimate of fair value. During the period the Company paid £1.76m comprising £1.68m in cash and £0.08m in shares under this arrangement, bringing the total consideration paid to £15.6m. No further payments are expected under this agreement.

4(b) Post completion services expense

A number of former owners of Netcall Systems Limited (formerly MatsSoft Limited) 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 expenses items

This note provides a breakdown of items included in ‘other income’, ‘other losses’, ‘finance income and costs’ and an analysis of expenses by nature and employee benefit expenses.

5(a) Other losses

	2020 £000	2019 £000
Net foreign exchange losses	**(24)**	(9)
Net loss on disposal of property, plant and equipment	**–**	(2)
Total other losses	**(24)**	(11)

5(b) Breakdown of expenses by nature

	Notes	2020 £000	2019 £000
Inventory recognised as an expense		**243**	266
Employee benefit expenses	5(c)	**15,194**	14,047
Depreciation and amortisation	8(a), 8(b), 8(c)	**2,484**	1,942
Operating lease payments	15(a)	**–**	297
Other expenses		**5,935**	4,835
Total cost of sales and administrative expenses		**23,856**	21,387

Research and development costs of £1.88m have been expensed during the year (2019: £1.68m).

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

	2020 £000	2019 £000
Fees payable to Company’s auditor for the audit of Parent Company and consolidated financial statements	**23**	20
Fees payable to the Company’s auditor for other services:		
– The audit of the Company’s subsidiaries pursuant to legislation	**53**	35
– Assurance related services	**8**	7
	84	62

5(c) Breakdown of employee benefit expenses

	Notes	2020 £000	2019 £000
Wages and salaries		**13,809**	12,791
Less: internal development costs capitalised in the year		**(1,627)**	(1,333)
Social security costs		**1,601**	1,463
Share options charge for Directors and employees	18(a)	**623**	507
Pension costs – defined contribution plans		**788**	619
		15,194	14,047

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

	2020	2019
Average number of people (including Executive Directors) employed:		
Sales and marketing	**68**	65
Development and operations	**143**	140
Management and administration	**23**	25
Total average headcount	**234**	230

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

5 Other expenses items continued

5(e) Finance income and costs

	2020 £000	2019 £000
Finance income		
Interest income from financial assets held for cash management purposes	**38**	41
Finance income	**38**	41
Finance costs		
Interest and finance charges paid/payable for financial liabilities at amortised cost	**620**	613
Interest paid/payable for lease liabilities (see note 8(b))	**32**	–
Borrowings: unwinding of discount (see note 7(f))	**113**	114
Other payables: unwinding of discount (see note 7(g))	**10**	67
Finance costs expensed	**775**	794
Net finance costs	**(737)**	(753)

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

	2020 £000	2019 £000
Current tax		
Current tax on profits for the year	**–**	–
Adjustments in respect of prior years	**–**	–
Total current tax expense	**–**	–
Deferred tax		
Decrease in deferred tax assets	**19**	45
(Decrease)/increase in deferred tax liabilities	**(9)**	97
Total deferred tax expense	**10**	142
Total tax charge	**10**	142

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 gross tax losses available for carrying forward against future taxable income of £7.60m (2019: £8.39m). The Group has recognised a deferred tax asset of £0.32m (2019: £0.37m), which is 22% 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 £1.27m (2019: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2019: £6.68m) or a deferred tax asset of £0.23m (2019: £0.20m) in relation to temporary timing differences due to share-based payment charges of £1.22m (2019: £1.03m).

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:

	2020 £000	2019 £000
Profit before tax	**497**	752
Tax expense calculated at 19% (2019: 19%)	**94**	143
Tax effects of:		
– Expenses not deductible for tax purposes	**133**	262
– Change in fair value of contingent consideration	**7**	(177)
– Additional deductions for R&D expenditure	**(301)**	(302)
– Utilisation of previously unrecognised tax losses	**(3)**	(17)
– Tax losses arising in the period not provided as a deferred tax asset	**59**	252
– Relief for employee share schemes	**(42)**	(30)
– Other	**17**	11
Adjustment in respect of prior year deferred tax	**46**	–
Total tax charge	**10**	142

6(d) Amounts recognised directly in equity

	2020 £000	2019 £000
Aggregate current and deferred tax arising in the year and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: share-based payments	**–**	(38)
	–	(38)

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

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	2020 £000	2019 £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)	**3,957**	3,864
– Contract assets	3(c)	**585**	1,178
– Other financial assets at amortised cost	7(b)	**4**	100
– Cash and cash equivalents	7(d)	**12,710**	7,769
Total financial assets		**17,328**	12,983
Financial liabilities			
Liabilities at amortised cost			
– Trade and other payables (excluding statutory liabilities)	7(e), 7(g)	**3,708**	4,575
– Borrowings	7(f)	**6,745**	6,632
– Lease liabilities	8(b)	**1,150**	–
Total financial liabilities		**11,603**	11,207

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

7(a) Trade receivables

	2020 £000	2019 £000
Current assets		
Trade receivables	**4,075**	3,946
Loss allowance (see note 12(c))	**(118)**	(82)
	3,957	3,864

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

	2020 £000	2019 £000
Other receivables	**4**	100
	4	100

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.

Equity investments at fair value through other comprehensive income

	2020 £000	2019 £000
Non-current assets		
Unlisted equity		
Macranet Ltd	**72**	72

The investment in Macranet Ltd is denominated in sterling (£). It is a provider of social media engagement solutions and 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, there is no change in the fair value of the investment in the year (2019: £nil).

7(d) Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**12,710**	7,769
Cash and cash equivalents	**12,710**	7,769

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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

7 Financial assets and liabilities continued

7(e) Trade and other payables

	2020 £000	2019 £000
Current liabilities		
Trade payables	**260**	336
Payroll tax and other statutory liabilities	**3,199**	690
Other payables	**3,448**	4,239
	6,907	5,265

Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables include the fair value of contingent consideration liabilities of £nil (2019: £1.68m) 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. Payroll tax and other statutory liabilities includes £2.21m (2019: £nil) for VAT payments that would usually have been paid between 20 March and 30 June 2020 under the coronavirus (COVID-19) VAT deferral scheme.

7(f) Borrowings

	2020 Current £000	2020 Non-current £000	2020 Total £000	2019 Current £000	2019 Non-current £000	2019 Total £000
Unsecured						
Loan Notes	**–**	**6,745**	**6,745**	–	6,632	6,632
Total borrowings	**–**	**6,745**	**6,745**	–	6,632	6,632

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.

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 difference between the principal value of the Loan Note and the initial fair value is being charged to the income statement over a five-year period. The Loan Notes are presented in the balance sheet as follows:

	2020 £000	2019 £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	**216**	102
Movement in the year	**113**	114
Closing balance	**329**	216
Non-current liability	**6,745**	6,632

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

7(g) Other payables – contingent consideration

	2020 Current £000	**2020 Non-current £000**	**2020 Total £000**	2019 Current £000	2019 Non-current £000	2019 Total £000
Contingent consideration	**–**	**–**	**–**	1,680	–	1,680

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

	2020 £000	2019 £000
Opening balance	**1,680**	2,749
Charged/(credited) to profit or loss:		
– Post-completion services expense[1]	**34**	320
– Unwinding of discount	**10**	67
– Change in fair value of contingent consideration (note 4(a))	**37**	(865)
Amounts paid during the year:		
– Cash	**(1,679)**	(591)
– Shares	**(82)**	–
Closing balance	**–**	1,680

[1] Of which: £33,000 (2019: £0.24m) relates to contingent cash consideration and is included as 'post-completion services'; and. £1,000 (2019: £0.08m) relates to contingent share consideration and is included as 'share-based payments', both within 'administrative expenses'.

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))
  - leases (note 8(b))
  - intangible assets (note 8(c))
  - deferred tax balances (note 8(d))
  - inventories (note 8(e))
  - other current assets (note 8(f))
  - provisions (note 8(g));
- accounting policies; and
- information about determining the fair value of the asset and liabilities, including judgements and estimation of the uncertainty involved.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

8 Non-financial assets and liabilities continued

8(a) Property, plant and equipment

	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost			
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
Additions	14	132	146
Disposals	–	(49)	(49)
At 30 June 2020	**1,008**	**1,767**	**2,775**
Accumulated depreciation			
At 30 June 2018	405	1,011	1,416
Depreciation charge	121	189	310
Disposals	(258)	–	(258)
At 30 June 2019	268	1,200	1,468
Depreciation charge	190	206	396
Disposals	–	(49)	(49)
At 30 June 2020	**458**	**1,357**	**1,815**
Net book amount			
At 30 June 2018	45	400	445
At 30 June 2019	726	484	1,210
At 30 June 2020	**550**	**410**	**960**

Depreciation expense of £0.40m (2019: £0.31m) 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.

8(b) Leases

This note provides information for leases where the Group is a lessee.

Amounts recognised in the balance sheet

	2020 £000	1 July 2019[1] £000
Right-of-use assets		
Buildings	**970**	819
	970	819
Lease liabilities		
Current	**248**	179
Non-current	**902**	725
	1,150	904

[1] In the previous year, the Group had no lease assets or lease liabilities that were classified as 'finance leases' under IAS 17 Leases. Further information on the adjustments recognised on adoption of IFRS 16 on 1 July 2019 is set out below.

Additions to the right-of-use assets during the year were £0.42m.

Amounts recognised in profit of loss

	2020 £000	2019 £000
Depreciation charge right-of-use assets – Buildings	261	–
Interest expense (including in finance cost)	32	–
Expense relating to short-term leases (included in 'administrative expenses')	–	–
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in 'administrative expenses')	–	–

The total cash outflow for leases in the year was £0.20m.

The Group's leasing activities and how these are accounted for

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of three to seven years. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Change in accounting policy

The Group adopted IFRS 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 30 June 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore not recognised in the opening balance sheet on 1 July 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.25%.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

8 Non-financial assets and liabilities continued

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 'determining whether an arrangement contains a lease'.

The measurement of lease liabilities at 1 July 2019 was:

	£000
Operating lease commitments at 30 June 2019	770
Add property lease dilapidations	233
Discounted using the incremental cost of borrowing at 1 July 2019	(99)
Lease liability recognised at 1 July 2019	**904**
Of which are:	
– Current lease liabilities	179
– Non-current lease liabilities	725
	904

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	£000
Right-of-use assets	819
Prepayments	(15)
Accruals	37
Lease liabilities	(904)
Provisions – property lease dilapidations (note 8(g))	77
Net impact on retained earnings	**14**

Critical judgement in determining the lease term

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers the facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Factors consider include: whether there are any significant penalties to terminate (or not extend) or leasehold improvements that are expected to have a significant remaining value; historical lease durations and the costs and business disruption required to replace the leased asset.

As at 30 June 2020, potential future cash outflows of £0.35m (undiscounted) have been included in the lease liability because it is reasonably certain that the leases will be extended.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

8(c) 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 2018	4,148	266	5,515	22,757	6,524	1,134	40,344
Additions	300	–	–	–	1,532	50	1,882
At 30 June 2019	4,448	266	5,515	22,757	8,056	1,184	42,226
Additions	–	–	–	–	1,708	9	1,717
At 30 June 2020	**4,448**	**266**	**5,515**	**22,757**	**9,764**	**1,193**	**43,943**
Accumulated amortisation							
At 30 June 2018	4,073	123	2,557	–	3,916	737	11,406
Amortisation charge	71	69	372	–	949	171	1,632
At 30 June 2019	4,144	192	2,929	–	4,865	908	13,038
Amortisation charge	43	68	372	–	1,155	189	1,827
At 30 June 2020	**4,187**	**260**	**3,301**	**–**	**6,020**	**1,097**	**14,865**
Net book amount							
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
At 30 June 2020	**261**	**6**	**2,214**	**22,757**	**3,744**	**96**	**29,078**

Amortisation of £1.83m (2019: £1.63m) 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 4–10 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 £1.71m (2019: £1.53m) 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 £3.74m (2019: £3.19m).

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

8 Non-financial assets and liabilities continued

Impairment tests for goodwill

Goodwill is monitored by management at the level of the operating segment identified in note 2, which is considered to be a single cash-generating unit ('CGU'). Goodwill was tested for impairment on 30 June 2020 following IAS 36 criteria. Management compared the carrying value of the CGU to the value-in-use, to confirm that no impairment of goodwill is necessary, as is shown in the table below:

	Goodwill £000	Acquired intangibles £000	Carrying value £000	Value-in-use £000	Excess value-in-use £000	Sensitivity %
Netcall	22,757	2,481	25,238	67,025	41,787	166%

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 three years ending 30 June 2023, extended for another two years to 30 June 2025, with average growth rates and a 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 were discounted at a pre-tax adjusted discount rate of 10% (2019: 10%). The pre-tax discount rates are based on the Group's weighted average cost of capital.

8(d) Deferred tax balances

Deferred tax assets

The balance comprises temporary differences attributable to:

	2020 £000	2019 £000
Tax losses	**321**	366
Share-based payments	**118**	98
Other	**43**	37
	482	501

The movement in deferred tax assets during the year was:

Deferred tax assets	Tax losses £000	Share-based payments £000	Other temporary differences £000	Total £000
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
(Charged)/credited to the income statement	(45)	20	6	(19)
Charged to equity	–	–	–	–
At 30 June 2020	**321**	**118**	**43**	**482**

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

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2020 £000	2019 £000
Acquired intangibles	**302**	360
Internally generated software assets	**485**	413
Accelerated tax depreciation	**55**	78
	842	851

The movement in deferred tax liabilities during the year was:

Deferred tax liabilities	Accelerated tax depreciation £000	Acquired intangibles £000	Internally generated software assets £000	Total £000
At 30 June 2018	3	428	323	754
Charged/(credited) to the income statement	75	(68)	90	97
At 30 June 2019	78	360	413	851
(Credited)/charged to the income statement	(23)	(58)	72	(9)
At 30 June 2020	**55**	**302**	**485**	**842**

8(e) Inventories

	2020 £000	2019 £000
Current assets		
Goods for resale	**139**	165

The cost of individual items is 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 £0.24m (2019: £0.27m) of which write downs of inventories to net realisable value amounted to £nil (2019: £nil). These were recognised as an expense during the year and included in 'cost of sales'.

8(f) Other current assets

	2020 £000	2019 £000
Prepayments	**1,392**	1,314
	1,392	1,314

8(g) Provisions

	2020 Current £000	**2020 Non-current £000**	**2020 Total £000**	2019 Current £000	2019 Non-current £000	2019 Total £000
Dilapidations	**–**	**–**	**–**	–	77	77
Total provisions	**–**	**–**	**–**	–	77	77

The Group adopted IFRS 16 in the year and as a result includes the estimated costs of restoring the Group's leasehold properties within right-of-use assets and lease liabilities. In the prior year, the Group recorded a provision for these costs. See note 8(b) for further information.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

8 Non-financial assets and liabilities continued

Movements in provisions

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

	Dilapidations £000
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 as original presented	77
Change in accounting policy (note 8(b))	(77)
At 30 June 2020	**–**

9 Equity

9(a) Share capital and premium

	Number of shares	Ordinary shares £000	Share premium £000	Total £000
At 30 June 2018	144,846,776	7,242	3,015	10,257
Employee share schemes issue (note 18(a))	329,507	17	–	17
At 30 June 2019	145,176,283	7,259	3,015	10,274
Acquisition of subsidiary[(1)]	279,986	14	–	14
Employee share schemes issue (note 18(a))	792,895	39	–	39
At 30 June 2020	**146,249,164**	**7,312**	**3,015**	**10,327**

[(1)] On 2 October 2019, the Company issued 279,986 new ordinary shares to the vendors of Netcall Systems Limited (formerly MatsSoft Limited) under the contingent consideration arrangement (see note 4(a)). The fair value of the shares issued amounted to £82,000 (29.5 pence per share). Pursuant to this acquisition, under Section 612 of the Companies Act 2006 the share-issue qualified for merger relief. Therefore, no share premium is accounted for in relation to shares issued in consideration of the acquisition. Instead, the difference between the nominal value of shares issued and the fair value of the shares issued, £68,000, is credited to the merger reserve on consolidation.

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 (2019: nil). The total number of ordinary shares held in Treasury at the end of the year was 1,869,181 (2019: 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 2018 and 30 June 2019	4,644	188	4,832
Additions (see note 9(a))	68	–	68
At 30 June 2020	**4,712**	**188**	**4,900**

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 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**
Increase in equity reserve in relation to options issued	–	622	–	–	622
Reclassification following exercise or lapse of options	–	(1,052)	–	–	(1,052)
Exchange differences arising on translation of foreign operations	–	–	(14)	–	(14)
At 30 June 2020	**(419)**	**4,667**	**(36)**	**(216)**	**3,996**

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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

10 Net funds reconciliation

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

10(a) Net funds

	2020 £000	2019 £000
Cash and cash equivalents	**12,710**	7,769
Borrowings – fixed interest	**(6,745)**	(6,632)
Lease liabilities	**(1,150)**	–
Net funds	**4,815**	1,137

10(b) Movements in net funds

	Cash and cash equivalents £000	Borrowings £000	Lease liabilities £000	Total £000
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 – as reported	**7,769**	**(6,632)**	**–**	**1,137**
Recognised on adoption of IFRS 16 (see note 8(b))	–	–	(904)	(904)
At 1 July 2019 – revised	**7,769**	**(6,632)**	**(904)**	**233**
Cash flows	4,953	–	199	5,152
Acquisitions – leases	–	–	(418)	(418)
Unwinding of discount (note 7(f))	–	(113)	(32)	(145)
Foreign exchange adjustments	(12)	–	–	(12)
Other changes	–	–	5	5
At 30 June 2020	**12,710**	**(6,745)**	**(1,150)**	**4,815**

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
- Recognition of deferred tax assets for carried forward tax losses – note 6(b)
- Estimation of useful life of intangible assets – note 8(c)
- Estimated impairment of internally generated software assets – note 8(c)
- Estimated recoverable value of goodwill – note 8(c)
- 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
- Estimation of right-of-use assets – note 8(b)

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 foreign currency risk and interest rate risk), credit risk and liquidity risk.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

12 Financial risk management continued

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 2020			
Trade receivables	**49**	**31**	**80**
Contract assets	**–**	**1**	**1**
Other financial assets at amortised cost	**–**	**–**	**–**
Cash and cash equivalents	**70**	**8**	**78**
Trade and other payables (excluding statutory liabilities)	**(48)**	**(36)**	**(84)**
	71	**4**	**75**
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

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 while maintaining sufficient liquidity to support the Group's strategy by placing a proportion of cash into short-term treasury deposits and retaining the balance in current accounts. The average interest rate gained on cash held during the year was 0.5% (2019: 0.6%). A 1% movement in interest rates would impact upon equity and net profit by approximately £61,000 (2019: £52,000).

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.

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 2020 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 for both trade receivables and contract assets is:

	2020 **£000**	2019 £000
Expected loss rate	**5.3%**	2.2%
Gross carrying amount – trade receivables	**4,075**	3,946
Gross carrying amount – contract assets	**723**	1,178
Loss allowance	**256**	111

The closing loss allowances for trade receivables and contract assets as at 30 June 2020 reconcile to the opening balance as follows:

	Contract assets		**Trade receivables**	
	2020 **£000**	2019 £000	**2020** **£000**	2019 £000
At 1 July	**29**	118	**82**	101
Increase in loss allowance recognised in profit or loss during the year	**266**	26	**140**	70
Receivables written off during the year as uncollectible	**–**	–	**–**	(79)
Unused amounts reversed	**(157)**	(115)	**(104)**	(10)
At 30 June	**138**	29	**118**	82

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 that 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

12 Financial risk management continued

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 2020							
Trade and other payables[1]	**3,708**	**–**	**–**	**–**	**–**	**3,708**	**3,708**
Borrowings	**–**	**–**	**–**	**7,000**	**–**	**7,000**	**6,745**
Lease liabilities	**147**	**137**	**255**	**560**	**152**	**1,251**	**1,150**
	3,855	**137**	**255**	**7,560**	**152**	**11,959**	**11,603**
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

[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:

	2020 £000	2019 £000
Net funds	**4,815**	1,137
Equity attributable to owners of the Parent Company	**22,877**	21,934
Net capital	**18,062**	20,797

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

13(b) Dividends

	Paid	Pence per share	Cash flow statement (£000)	Statement of changes in equity (£000)	Balance sheet (£000)
Year to June 2020					
Final ordinary dividend for the year to June 2019	**05/02/20**	**0.20p**	**287**	**287**	**–**
			287	**287**	**–**
Year to June 2019					
Final ordinary dividend for year to June 2018	06/02/19	0.53p	758	758	–
			758	758	–

It is proposed that this year's final ordinary dividend of 0.25 pence per share will be paid to shareholders on 9 February 2021. Netcall plc shares will trade ex-dividend from 24 December 2020 and the record date will be 29 December 2020. The estimated amount payable is £0.36m. 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

Company name	Country of incorporation	Nature of business	Proportion of ordinary shares held by Parent Company	Proportion of ordinary shares held by the Group
Netcall Technology Limited (formerly Netcall Telecom Limited)	UK	Software & services	0%	100%
Netcall Systems Limited (formerly MatsSoft Limited)	UK	Software & services	100%	0%
MatsSoft Limited (formerly MatsSoft Holdings Limited)	UK	Intermediate holding company	0%	100%
Netcall Systems, Inc. (formerly 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%
Zelliant Limited (formerly 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

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. From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 8(b) for further information.

	2020 £000	2019 £000
Not later than 1 year	**–**	141
Later than 1 year and no later than 5 years	**–**	474
More than 5 years	**–**	155
Total	**–**	770

16 Post balance sheet events

The Board recommended a final dividend for the year ended 30 June 2020 on 12 October 2020. 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:

	2020 £000	2019 £000
Salaries and other short-term employee benefits	**1,154**	855
Company contributions to money purchase pension schemes	**34**	32
Share-based payments	**2**	176
Total	**1,190**	1,063

17(c) Directors

	2020 £000	2019 £000
Aggregate emoluments	**992**	754
Company contributions to money purchase pension schemes	**34**	32
Total	**1,026**	786

Details of individual Director's emoluments are set out on page 14 and 15 of the Directors' Report.

The highest paid Director was paid £510,000 (2019: £384,000) and gained £114,000 on the exercise of share options in the year (2019: £nil). Personal pension contributions paid to the highest paid Director was £25,000 (2019: £22,000).

The Directors received dividend payments as follows:

	2020 £000	2019 £000
Executive Directors		
Henrik Bang[(1)]	**10**	24
James Ormondroyd[(2)]	**3**	9
Non-Executive Directors		
Michael Jackson[(3)]	**3**	4
Michael Neville	**1**	3

(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 Ltd 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

18 Share-based payments continued

In July and November 2019, the Company granted a number of both EMI and Unapproved share options ('LTIP4'). Options are granted at an exercise price of 5 pence. The vesting period is from the date of grant to 30 June 2023 and the options are conditional on certain vesting criteria including: achievement of the Company's ordinary share price up to £1.20 in the period from the date of grant up to June 2023; and the option holder being in employment at the date the option is exercised. Once vested up to one third of the options awarded may be exercised from and after July 2021 and the remaining vested awards may be exercised one half from each of July 2022 and July 2023; 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:

	2020 Weighted average exercise price in pence per share	**2020 Options (thousand)**	2019 Weighted average exercise price in pence per share	2019 Options (thousand)
At 1 July	**5.0**	**18,731**	4.9	18,816
Granted	**5.0**	**8,406**	5.0	285
Exercised	**5.0**	**(793)**	4.6	(330)
Forfeited	**5.0**	**(3,686)**	5.0	(40)
At 30 June	**5.0**	**22,658**	5.0	18,731

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

			Exercise price in	Options (thousands)	
Grant date	Expiry date	Scheme	pence per share	**2020**	2019
July 2011	July 2021	LTIP1	5.0	**173**	173
July 2012	July 2022	LTIP1	5.0	**334**	334
December 2013	April 2021	LTIP2	5.0	**529**	1,836
April 2014	April 2021	LTIP3	5.0	**11,372**	12,100
June 2014	April 2021	LTIP3	5.0	**147**	760
March 2015	March 2022	LTIP3	5.0	**299**	378
November 2015	April 2022	LTIP3	5.0	**319**	1,287
November 2015	November 2022	Unapproved	0.0	**48**	48
October 2016	October 2023	Unapproved	0.0	**33**	33
August 2017	August 2027	Unapproved 2	5.0	**462**	1,246
November 2017	November 2024	Unapproved 3	5.0	**251**	251
December 2018	December 2025	Unapproved 3	5.0	**285**	285
July 2019	June 2024	LTIP4	5.0	**5,643**	–
November 2019	June 2024	LTIP4	5.0	**2,763**	–
			5.0	**22,658**	18,731

At 30 June 2020, out of the 22,658,196 outstanding options (2019: 18,731,028 options), 5,557,865 options (2019: 5,653,971) were exercisable. The weighted average exercise price for options exercisable at the year-end was 4.9 pence (2019: 4.9 pence).

Options exercised in the year resulted in 792,895 shares (2019: 329,507) being issued at a weighted average price of 5.0 pence each (2019: 4.6 pence). The related average weighted share price at the time of exercise was 33.2 pence per share (2019: 51.7 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 5,642,865 options granted in July 2019 was determined using a combination of the Monte Carlo and binomial option valuation models was 14.3 pence per option. The significant inputs into the model were mid-market share price of 35.8 pence at the grant date; exercise price of 5 pence; volatility of 35%; an expected option life of 4.0 years; a bid price share discount of 2%; and an annual risk-free interest rate of 0.56%. 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.

The weighted average fair value of the 2,762,875 options granted in November 2019 was determined using a combination of the Monte Carlo and binomial option valuation models was 7.0 pence per option. The significant inputs into the model were mid-market share price of 25.5 pence at the grant date; exercise price of five pence; volatility of 40%; an expected option life of 3.7 years; a bid price share discount of 2%; and an annual risk-free interest rate of 0.43%. 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 5 pence each at a price of 58 pence per share. The option maybe 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.

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	**2020 £000**	2019 £000
Employee share options	18(a)	**624**	507
Post-completion services	7(g)	**1**	76
		625	583

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.

	2020	2019
Net earnings attributable to ordinary shareholders (£000)	**487**	610
Weighted average number of ordinary shares in issue (thousands)	**143,588**	143,038
Basic earnings per share (pence)	**0.34**	0.43

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.

	2020	2019
Weighted average number of ordinary shares in issue (thousands)	**143,588**	143,038
Adjustments for share options	**5,839**	6,085
Weighted average number of potential ordinary shares in issue (thousands)	**149,427**	149,123
Diluted earnings per share (pence)	**0.33**	0.41

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

19 Earnings per share continued

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:

	2020 £000	2019 £000
Profit used for calculation of basic and diluted earnings per share	**487**	610
Change in fair value of contingent consideration	**37**	(865)
Share-based payments	**625**	583
Post completion services	**33**	244
Amortisation of acquired intangible assets	**483**	512
Unwinding of discount – contingent consideration and borrowings	**123**	181
Tax effect of adjustments	**(332)**	(125)
Profit used for calculation of adjusted basic and diluted earnings per share	**1,456**	1,140

	2020 Pence	2019 Pence
Adjusted basic earnings per share	**1.01**	0.80
Adjusted diluted earnings per share	**0.97**	0.76

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 ('IFR IC') 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 IFRS 16 Leases for the first time for the annual reporting period commencing 1 July 2019. The Group had to change its accounting policies as a result of adopting IFRS 16 and elected to adopt the new rules retrospectively but recognising the cumulative effect of initially applying the new standard on 1 July 2019. See note 8(b) for further information.

Standards and interpretations not yet applied by the Group

Certain new standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been adopted early. These standards are not 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

20 Summary of significant accounting policies continued

20(e) Revenue

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

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.

20(g) Leases

As explained in note 20(a) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy and the impact of the change is described in note 8(b).

Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 15(a)). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

20 Summary of significant accounting policies continued

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(e) 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 20(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.

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(c).

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(c).

Notes to the consolidated financial statements

for the year ended 30 June 2020

Continued

20 Summary of significant accounting policies continued

20(p) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year that 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 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 2020

	Notes	2020 £000	2019 £000
Assets			
Non-current assets			
Intangible assets	E	**659**	822
Investments in subsidiaries	F	**38,857**	38,240
Other investments	G	**72**	72
Deferred tax asset	L	**321**	244
Total non-current assets		**39,909**	39,378
Current assets			
Trade and other receivables	H	**2,412**	1,479
Cash at cash equivalents		**2,236**	2,624
Total current assets		**4,648**	4,103
Total assets		**44,557**	43,481
Equity and liabilities			
Equity			
Share capital	M	**7,312**	7,259
Share premium		**3,015**	3,015
Other equity	N	**2,911**	2,843
Other reserves	O	**4,032**	4,462
Retained earnings		**19,402**	16,543
Total equity		**36,672**	34,122
Liabilities			
Non-current liabilities			
Borrowings	I	**6,745**	6,632
Other payables	J	**–**	–
Total non-current liabilities		**6,745**	6,632
Current liabilities			
Trade and other payables	K	**1,140**	2,727
Total current liabilities		**1,140**	2,727
Total liabilities		**7,885**	9,359
Total equity and liabilities		**44,557**	43,481

The notes on pages 76 to 80 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 £2.09m (2019: £1.68m).

These financial statements on pages 74 to 80 were approved and authorised for issue by the Board on 12 October 2020 and were signed on its behalf by:

James Ormondroyd
Director

Netcall plc, Registered no. 01812912

Parent Company statement of changes in equity

for the year ended 30 June 2020

	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
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
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**
Increase in equity reserve in relation to options issued	–	–	–	622	–	622
Reclassification following exercise or lapse of options	–	–	–	(1,052)	1,052	–
Issue of ordinary shares as consideration for an acquisition in a business combination	14	–	68	–	–	82
Proceeds from share issue	39	–	–	–	–	39
Dividends to equity holders of the Company	–	–	–		(287)	(287)
Transactions with owners	**53**	**–**	**68**	**(430)**	**765**	**456**
Profit for the year	–	–	–	–	2,094	2,094
Other comprehensive loss for the year	–	–	–	–	–	–
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,094**	**2,094**
Balance at 30 June 2020	**7,312**	**3,015**	**2,911**	**4,032**	**19,402**	**36,672**

The notes on pages 76 to 80 form part of these financial statements.

Notes to the Parent Company financial statements

for the year ended 30 June 2020

A Principal accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard that 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 20(a) of the consolidated financial statements of Netcall plc.

The Directors have taken advantage of the exemption under Section 408 of the Act and not presented an income statement of 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 pages 60 to 73, 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 either at a point in time or over time, when (or as) the Company satisfies its performance obligations.

(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 that 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 (2019: 2). The only employees of the Company are the Executive Directors. Directors' remuneration has been disclosed within the Directors' Report on page 14 and 15.

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(b) of the consolidated financial statements.

D Profit for the financial year

The Company made a profit for the financial year of £2.09m (2019: £1.68m).

E Intangible assets

	Acquired software £000	Trademarks and licenses £000	Total £000
Cost			
At 30 June 2018	2,223	179	2,402
Additions	–	–	–
At 30 June 2019	2,223	179	2,402
Additions	–	–	–
At 30 June 2020	**2,223**	**179**	**2,402**
Accumulated amortisation			
At 30 June 2018	1,297	121	1,418
Amortisation charge	148	14	162
At 30 June 2019	1,445	135	1,580
Amortisation charge	148	15	163
At 30 June 2020	**1,593**	**150**	**1,743**
Net book amount			
At 30 June 2018	926	58	984
At 30 June 2019	778	44	822
At 30 June 2020	**630**	**29**	**659**

F Investments in subsidiaries

	Total £000
Cost and net book amount	
At 30 June 2018	37,904
Additions – share incentive charges to subsidiaries	366
At 30 June 2019	38,240
Additions – share incentive charges to subsidiaries	617
At 30 June 2020	**38,857**

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 are equity investments at fair value through other comprehensive income:

	2020 Current £000	**2020 Non-current £000**	**2020 Total £000**	2019 Current £000	2019 Non-current £000	2019 Total £000
Macranet Ltd	**–**	**72**	**72**	–	72	72

Details of the equity investment in Macranet Ltd are set out in note 7(c).

Notes to the Parent Company financial statements

for the year ended 30 June 2020

Continued

H Trade and other receivables

	2020 £000	2019 £000
Amounts owed from Group undertakings[1]	**2,247**	1,354
Prepayments and accrued income	**165**	125
	2,412	1,479

[1] Amounts due to Group undertakings are unsecured, interest free and are repayable on demand

All amounts are due within one year.

I Borrowings

	2020 Current £000	2020 Non-current £000	2020 Total £000	2019 Current £000	2019 Non-current £000	2019 Total £000
Unsecured						
Loan Notes	**–**	**6,745**	**6,745**	–	6,632	6,632
Total borrowings	**–**	**6,745**	**6,745**	–	6,632	6,632

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

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

	2020 £000	2019 £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	**216**	102
– Movement in the year	**113**	114
– Closing balance	**329**	216
Non-current liability	**6,745**	6,632

J Other payables – contingent consideration

	2020 Current £000	2020 Non-current £000	2020 Total £000	2019 Current £000	2019 Non-current £000	2019 Total £000
Contingent consideration	**–**	**–**	**–**	1,680	–	1,680
	–	**–**	**–**	1,680	–	1,680

See note 7(g) for information about the contingent consideration liability and its estimate. The current balance of £nil (2019: £1.68m) is included within 'Trade and other payables – other liabilities'.

Movements during the year are set out below:

	2020 £000	2019 £000
Opening balance	**1,680**	2,749
Charged/(credited) to profit or loss:		
– Post-completion services expense	**33**	244
– Share-based payment charge	**1**	76
– Unwinding of discount	**10**	67
– Change in fair value of contingent consideration	**37**	(865)
Amounts paid during the year – cash	**(1,679)**	(591)
Amounts paid during the year – shares	**(82)**	–
Closing balance	**–**	1,680

K Trade and other payables

	2020 £000	2019 £000
Amounts owed to Group undertakings[1]	**–**	348
Trade payables	**–**	–
Social security and other taxes	**153**	54
Other liabilities	**142**	1,854
Accruals	**845**	471
	1,140	2,727

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

L Deferred taxation

	2020 £000	2019 £000
Deferred tax assets comprise:		
Tax losses	**321**	244
Opening balance	**244**	228
Charged to profit or loss	**77**	16
Closing balance	**321**	244

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 £1.27m (2019: £1.14m) in respect of losses that are capital in nature amounting to £6.68m (2019: £6.68m) or £0.20m (2019: £0.18m) in relation to timing differences due to share-based payment charges of £1.03m (2019: £0.92m).

M Share capital

	2020 shares	2020 £000	2019 shares	2019 £000
Allocated, called up and fully paid				
Ordinary shares of 5p each	**146,249,164**	**7,312**	145,176,283	7,259

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

Notes to the Parent Company financial statements

for the year ended 30 June 2020

Continued

N Other equity

	Merger reserve £000	Capital reserve £000	Total £000
At 30 June 2018 and 30 June 2019	2,655	188	2,843
Additions	68	–	68
At 30 June 2020	**2,723**	**188**	**2,911**

Details of the additions to the merger reserve are detailed in note 9(a) of the consolidated financial statements.

O Other reserves

	Treasury shares £000	Share options reserve £000	Financial assets at fair value at FVOCI £000	Total £000
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
Increase in equity reserve in relation to options issued	–	622	–	622
Reclassification following exercise or lapse of options	–	(1,052)	–	(1,052)
At 30 June 2020	**(419)**	**4,667**	**(216)**	**4,032**

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