5 March 2019

NETCALL PLC
(“Netcall”, the “Company”, or the “Group”)

Interim results for the six months ended 31 December 2018

Approaching inflection point as Cloud services growth accelerates

Netcall plc (AIM: NET), the leading provider of Low-code and customer engagement software, today announces its unaudited interim results for the six months ended 31 December 2018.

Financial highlights

- Revenue up 6% to £11.4m (H1-FY18: £10.7m)
- Cloud services and product bookings(1) increased by 96% to £5.22m (H1-FY18: £2.67m)
- Total annual contract value(2) (‘ACV’) at 31 Dec 2018 up 10% to £15.1m (H1-FY18: £13.7m) - Low-code ACV up 40% year over year
- Adjusted EBITDA(3) £2.02m (H1-FY18: £2.69m) after approximately £0.75m spend of the growth investment programme
- Profit before tax increased 49% to £0.42m (H1-FY18: £0.28m)
- Cash generated from operations of £1.85m (H1-FY18: £0.30m)

Operational highlights

- Substantial growth in cloud business with a number of notable multi-year contracts
- Cloud service bookings exceeding product sales for the first time
- New Low-code customer wins and cross sales
- High levels of customer renewals
- Significant new Low-code and Liberty cloud product releases

Henrik Bang, CEO at Netcall, commented:

“We are now approaching a clear inflexion point in our transition from a traditional software business to a high growth digital cloud operation, with our Cloud service bookings exceeding product sales.

“The increase in our total ACV and Low-code ACV provides a clear demonstration of the growing forward visibility of our revenue streams.

“Trading is in line with our expectations for the year so far. We expect revenues for the year to be more weighted toward the second half given the move to a recurring revenue model and the timing of product sales. Our strong sales momentum has continued into the second half with order inflow significantly ahead compared with the same period last year.”

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

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

[(3)] Profit before interest, tax, depreciations and amortisation adjusted to exclude the effects of acquisition, impairment, contingent consideration and non-recurring transaction costs. The forecast is based on unaudited management accounts for the 6 months ended 31 December 2018.

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About Netcall:

Netcall develops and markets platforms for customer engagement and digital process automation using its market leading Low-code technology. This provides a compelling proposition to improve customer experience as well as deliver operational excellence.

Netcall's Low-code platform uses drag and drop technology that enables organisations to scale and rapidly develop, test and deploy digital enterprise applications. This empowers business users and IT developers to collaboratively develop products and systems that create a leaner, more customer-centric organisation.

The Group is transitioning from a stable traditional software business to become a high growth cloud-led digital operation. Netcall has a growing international presence and is recognised by both Forrester and Gartner as a leading provider of Low-code in its industry.

Netcall's customers span enterprise, healthcare and government sectors. These include two-thirds of the NHS Acute Health Trusts, major telecoms operators such as BT, and leading corporates including Lloyds Banking Group, ITV and Nationwide Building Society.

Netcall is a UK company quoted on the AIM market of the London Stock Exchange.

Prior to publication the information communicated in this announcement was deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No 596/2014 ('MAR') With the publication of this announcement, this information is now considered to be in the public domain.

Strategic overview

The Group is transitioning from a traditional software business to a high growth digital cloud operation, blending its Liberty platform with its recently acquired Low-code cloud operation. The aim is that the cloud business becomes the majority of the Group's revenue by 2021.

The Group is now well positioned to capitalise on the fast growing Low-code market and is accelerating its investment in the business. The cash generative Liberty business, which has a strong position in healthcare and public sector markets, is providing the resource to support substantial new growth opportunities.

The combination of Netcall's products provides organisations with a unique proposition for their customer engagement and digital process automation requirements. It enables significant customer experience improvements and delivery of operational excellence with efficiency savings.

Netcall has seen a notable rise in interest and new customer wins for its solutions, as a growing number of organisations evaluate and adopt these capabilities across their enterprises. The Group has also seen an increase in cross selling of Low-code solutions into existing customers as they digitise and modernise their operations.

The average annual contract value of these initial Low-code cross-sales is three times higher than the average of the Netcall customer base. This gives an early indication of the potential value of Low-code sales into the existing customer base.

Netcall is also developing its partner strategy and activity in this area is growing. Partners using the Group's Low-code platform can gain significant advantages including using the speed and flexibility of its software to disrupt their market place, being able to scale with customer demand and create profitable recurring revenue streams.

Netcall's software is highly operationally geared, scalable and easy to deploy and use for enterprises. The Low-code market is worth more than an estimated $6 billion and is expected to grow rapidly in the coming years[1].

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

[1] Source: https://go.forrester.com/blogs/why-you-need-to-know-about-low-code-even-if-youre-not-responsible-for-software-delivery/

Current trading and outlook

Netcall is now approaching a clear inflexion point with Cloud service bookings exceeding product sales for the first time in a six-month reporting period and the Group's forward visibility of revenue continues to grow strongly.

The Group has traded in line with the Board's expectations for the year to date. As previously stated, Netcall expects revenues for the year to be more weighted toward the second half given the transition to a recurring revenue model and the timing of product sales. The Group experienced strong sales momentum in the first half which has continued into the second half with order inflow significantly ahead of the comparable period last year.

Operational review

Markets and opportunities

Enterprises of all sizes are undertaking digital transition projects as they modernise their legacy customer engagement and business systems. According to Forrester Corporate's principal focus on process improvement is on improving customer experience and accelerate digital business transformation."[2] However, many enterprises lack resources and capabilities to deliver the projects.

Netcall's offerings empowers businesses to rapidly implement digital transformation projects. The ease of use and flexibility of the platforms is accelerating the speed and widening the range of applications organisations can implement to significantly improve their customer experience while reducing the cost base.

Combining the Low-code capability with the Liberty customer engagement platform enables Netcall to provide compelling solutions. Digital business processes on the Group's Low-code platform can seamlessly drive customer journeys with integrated customer interactions carried out using Liberty capabilities such as chat, SMS, messaging or contact centre. With its rich API capabilities these journeys can integrate with other systems, holding information required to deliver a smooth experience for customers and thereby retrieving or updating data critical for record management and back-end systems.

Netcall is also assisting its customers to build and develop tailored applications using the Low-code technology across their own external communities, such as public sector bodies. At the same time partner firms are using Low-code to develop solutions as part of their consultancy services to provide broader offerings and create new revenue and growth opportunities.

The Group has continued to win business across a range of vertical markets, including:

- A minimum four-year agreement worth more than £1.4m with an international business process outsourcer for a Low-code and Liberty solution;
- A three-year agreement worth a minimum of £1.5m with an infrastructure business for a Low-code platform to be used for a broad range of applications to modernise their systems; and,
- Cross-sales of Low-code solutions into our existing markets including local authorities, government agencies, housing associations and NHS trusts.

In addition, we have seen significant projects go-live including:

- Lloyd's Market Association, which provides services to members of the Lloyds of London insurance market, launched a claims expert management hub, Gemini, built on the Group's Low-code platform. The platform helps the Lloyds markets managing agents to contract and manage spend on claims experts exceeding an estimated £500m per year.
- Hampshire Trust Bank selected the Low-code platform to enable ''digital innovation, process and customer experience improvements'' and has launched its first solutions to support mortgage applications.

Products

A new version of the Group's Low-code platform has been released addressing the growing demand from IT professionals for Low-code capabilities to help them benefit further from the platform's speed and flexibility. The release included the ability for developers to create custom code and embedded integrations with other applications. The interface has also been updated with new performance reporting giving IT increased control and governance over the applications delivered on the platform.

In January 2019, the Group launched a new Low-code community, where customers can engage with other Low-code users to find, collaborate and contribute to creating better solutions. The launch included an Appshare allowing users to download and share free to use apps, adaptors, plugins, themes and widgets. In addition, the release included a Training Academy for eLearning and a Forum which includes app building advice, suggestions and feedback.

The Group also expanded its customer engagement platform, Liberty, with support for a new cloud based conversational messaging service. Built on Microsoft Azure cloud infrastructure, this new service provides support for channels such as Facebook, Twitter and various SMS providers and it will be used by both Liberty and Low-code solutions to ensure that the Group can rapidly add further messaging channels across its product portfolio. The release of this service is a further example of the continued expansion of the Liberty platform from a premise-based solution to the cloud.

[2] Source: Forrester - Q1 2018 Digital Business Automation Survey

Financial Review

Group revenue increased 6% to £11.4m (H1-FY18: £10.7m).

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

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

The Board has, for a number of years, measured financial performance using the following KPIs: revenue, EBITDA, and operating cash flow. In addition, the Group will now also report Cloud and product bookings and ACV. These metrics measure sales momentum and give a lead indicator on future revenue.

Cloud and product bookings (the total of all new orders received classified as cloud subscription and support, product and first year support contract revenues) in the period increased by 96% year over year to £5.2m, of which Low-code rose seven-fold to £3.9m.

As a result, revenue from Cloud services, which are a key strategic focus, have grown strongly and increased by 48% to £3.01m (H1-FY18: £2.04m).

Total Low-code ACV as at 31 December 2018 increased by 40% year over year to £4.2m (H1-FY18: £3.0m). In the seventeen months of acquisition of the Low-code platform the Group has increased the Low-code ACV by 48%.

Total ACV increased by 10% year over year to £15.1m (H1-FY18: £13.7m). ACV, as of a given date, is the total of the value of each cloud and support contract divided by the total number of years of the contract.

Product support contract revenue increased by 5% to £4.63m (H1-FY18: £4.42m) reflecting very high contract retention combined with the contribution of new product sales and price rises.

Communications services revenue was £0.94m (H1-FY18: £1.11m) due to lower usage of call-back services in the period by a partner.

Product revenue was disappointing at £0.98m (H1-FY18: £1.81m) as a higher proportion of the sales pipeline was carried forward into the second half than normal, due to purchasing delays by some public sector organisations. As set out above the weaker performance in this area in the first half along with the transition to recurring revenues has led to an expectation that revenue will be more weighted to the second half than historically and will require a higher level of conversion of the existing pipeline than in the first half.

Professional services revenues increased 36% to £1.80m (H1-FY18: £1.32m) due to implementation services increasing in line with new sales of cloud solutions.

Gross profit margin was maintained at 90% (H1-FY18: 90%).

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition related items increased to £8.23m (H1-FY18: £6.98m) which is in line with expectations following the previously announced investment programme. Investments have mainly been made in expanding sales and marketing, professional services teams to deliver implementation services for the growing cloud solutions and our own digital business operation to support a larger and growing organisation.

Consequently, the Group adjusted EBITDA was £2.02m (H1-FY18: £2.68m), a margin of 18% of revenue (H1-FY18: 25%).

Profit before tax increased 49% to £0.42m (H1-FY18: £0.28m) after taking into account acquisition related items and interest on borrowings taken out to fund the acquisition of MatsSoft in August 2017.

The Group tax charge of £0.12m (H1 FY18: £0.10m) represents an underlying effective rate of tax of 14% (H1 FY18: 5%) on adjusted profit before tax. The underlying effective rate of tax benefited from additional deductions for R&D expenditure and utilisation of previously unrecognised losses brought forward.

Diluted earnings per share increased by 67% to 0.20 pence (H1-FY18: 0.12 pence) and was 0.60 pence on an adjusted basis (H1-FY18: 1.03 pence).

Cash generated from operations before non-recurring transaction cost payments was £1.85m (H1-FY18: £0.30m), as previously announced returning to a normal level of conversion of 92% (H1-FY18: 11%) of adjusted EBITDA following last year's one-off impact from the MatsSoft acquisition.

Spending on research and development, including capitalised software development, was maintained at £1.45m (H1-FY18: £1.45m) of which capitalised software expenditure was £0.71m (H1-FY18: £0.83m).

Total capital expenditure was £1.07m (H1-FY18: £1.01m); the balance after capitalised development, being £0.36m (H1-FY18: £0.18m) relating to IT equipment, software and office fit out.

The Company acquired MatsSoft Limited in August 2017. The purchase agreement provided for potential further cash and share to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. During the period the Company paid £0.46m in cash under this arrangement. At 31 December 2018 the fair value of the remaining contingent consideration was re-estimated at a lower amount of £2.42m resulting in £0.12m being credited to the income statement as a change in estimate.

To support the acquisition, the Company issued a £7m Loan Note (see note 7). Loan Note interest payments in the period totalled £0.30m (H1-FY18: £0.20m).

As a result of these factors, net debt was £0.77m at 31 December 2018 (31 December 2017: £0.81m).

Unaudited consolidated income statement for the six months to 31 December 2018

£'000	Unaudited Six months to 31 December 2018	Unaudited Six months to 31 December 2017	Audited 12 months to 30 June 2018
Revenue	**11,354**	**10,712**	**21,875**
Cost of sales	(1,121)	(1,046)	(2,143)
Gross profit	**10,233**	**9,666**	**19,732**
Administrative expenses	(9,450)	(9,093)	(18,961)
Other income	-	12	23
Other gains/ (losses) – net	15	(15)	12
Adjusted EBITDA	**2,015**	**2,688**	**5,421**
Depreciation	(143)	(127)	(252)
Impairment charge on intangible assets	-	-	(792)
Amortisation of acquired intangible assets	(259)	(323)	(547)
Amortisation of other intangible assets	(509)	(454)	(1,119)
Non-recurring transaction costs	-	(236)	(464)
Change in fair value of contingent consideration	121	-	-
Post-completion services	(147)	(456)	(464)
Share-based payments	(280)	(522)	(1,001)
Operating profit	**798**	**570**	**782**
Finance income	20	12	29
Finance costs	(403)	(304)	(766)
Finance costs – net	**(383)**	**(292)**	**(737)**
Profit before tax	**415**	**278**	**45**
Tax (charge)/ credit	(124)	(97)	91
Profit for the period	**291**	**181**	**136**
Earnings per share – pence			
Basic	0.20	0.13	0.10
Diluted	0.20	0.12	0.09

All activities of the Group in the current and prior periods are classed as continuing. All of the profit for the period is attributable to the shareholders of Netcall plc.

Statement of comprehensive income for the six months to 31 December 2018

£'000	Unaudited Six months to 31 December 2018	Unaudited Six months to 31 December 2017	Audited 12 months to 30 June 2018
Profit for the period	291	181	136
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	(19)	5	(5)
Total comprehensive income for the period	**272**	**186**	**131**

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

Unaudited consolidated balance sheet at 31 December 2018

£'000	Unaudited 31 December 2018	Unaudited 31 December 2017	Audited 30 June 2018
Assets			
Non-current assets			
Property, plant and equipment	627	453	445
Intangible assets	28,913	30,026	28,938
Deferred tax asset	473	425	584
Other investments	288	288	288
Total non-current assets	**30,301**	**31,192**	**30,255**
Current assets			
Inventories	186	214	215
Other current assets	1,186	904	1,077
Trade receivables	5,028	3,916	6,078
Other financial assets at amortised cost	1,941	1,415	1,554
Current tax asset	-	-	-
Cash and cash equivalents	5,808	5,650	5,779
Total current assets	**14,149**	**12,099**	**14,703**
Total assets	**44,450**	**43,291**	**44,958**
Liabilities			
Non-current liabilities			
Other payables	-	978	925
Borrowings	6,576	6,462	6,518
Deferred tax liabilities	786	1,177	754
Provisions	57	132	44
Total non-current liabilities	**7,419**	**8,749**	**8,241**
Current liabilities			
Trade and other payables	5,512	4,207	5,095
Dividend payable	758	1,656	-
Current tax liabilities	18	-	-
Deferred income	9,059	7,355	9,790
Provisions	128	-	128
Total current liabilities	**15,475**	**13,218**	**15,013**
Total liabilities	**22,894**	**21,967**	**23,254**
Net assets	**21,556**	**21,324**	**21,704**
Equity attributable to the owners of the parent			
Share capital	7,242	7,229	7,242
Share premium	3,015	3,015	3,015
Other equity	4,832	4,832	4,832
Other reserves	4,447	3,792	4,133
Retained earnings	2,020	2,456	2,482
Total equity	**21,556**	**21,324**	**21,704**

Unaudited consolidated statement of changes in equity at 31 December 2018

£'000	Share capital	Share premium	Other equity	Other reserves	Retained earnings	Total equity
Balance at 1 July 2017	**7,054**	**3,015**	**2,697**	**2,854**	**5,386**	**21,006**
Proceeds from share issue	-	-	-	-	-	-
Issue of ordinary shares as consideration for acquisition for a business combination	175	-	2,135	-	-	**2,310**
Increase in equity in relation to options issued	-	-	-	975	-	**975**
Tax debit relating to share options	-	-	-	(36)	-	**(36)**
Reclassification following exercise or lapse of share options	-	-	-	(6)	6	**-**
Dividends to equity holders of the company	-	-	-	-	(3,117)	**(3,117)**
Transactions with owners	**175**	**-**	**2,135**	**933**	**(3,111)**	**132**
Profit for the period	-	-	-	-	181	**181**
Other comprehensive income for the period	-	-	-	5	-	**5**
Total comprehensive income for the period	**-**	**-**	**-**	**5**	**181**	**186**
Balance at 31 December 2017	**7,229**	**3,015**	**4,832**	**3,792**	**2,456**	**21,324**
Balance at 1 January 2018	**7,229**	**3,015**	**4,832**	**3,792**	**2,456**	**21,324**
Proceeds from share issue	9	-	-	-	-	**9**
Increase in equity in relation to options issued	-	-	-	389	-	**389**
Tax credit relating to share options	-	-	-	37	-	**37**
Reclassification following exercise or lapse of share options	4	-	-	(75)	71	**-**
Transactions with owners	**4**	**-**	**-**	**351**	**71**	**435**
Loss for the period	-	-	-	-	(45)	**(45)**
Other comprehensive income for the period	-	-	-	(10)	-	**(10)**
Total comprehensive income for the period	**-**	**-**	-	(10)	(45)	**(55)**
Balance at 30 June 2018	**7,242**	**3,015**	**4,832**	**4,133**	**2,482**	**21,704**
Balance at 1 July 2018	**7,242**	**3,015**	**4,832**	**4,133**	**2,482**	**21,704**
Increase in equity reserve in relation to options issued	-	-	-	376	-	**376**
Reclassification following exercise or lapse of share options	-	-	-	(5)	5	**-**
Tax debit relating to share options	-	-	-	(38)	-	**(38)**
Dividends to equity holders of the company	-	-	-	-	(758)	**(758)**
Transactions with owners	-	**-**	-	**333**	**(753)**	**(420)**
Profit for the period	-	-	-	-	291	**291**
Other comprehensive income for the period	-	-	-	(19)	-	**(10)**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**(19)**	**291**	**272**
Balance at 31 December 2018	**7,242**	**3,015**	**4,832**	**4,447**	**2,020**	**21,556**

Unaudited consolidated cash flow statement for the six months to 31 December 2018

£'000	Unaudited Six months to 31 December 2018	Unaudited Six months to 31 December 2017	Audited 12 months to 30 June 2018
Cash flows from operating activities			
Profit before tax	414	278	45
Adjustments for:			
Depreciation and amortisation	911	903	1,918
Impairment	-	-	792
Loss on disposal of fixed assets	4	-	-
Share-based payments	280	521	1,103
Net finance costs	383	292	635
Changes in working capital			
Decrease in inventories	30	120	118
Decrease/ (increase) in trade receivables	1,052	(509)	(2,575)
(Increase)/ decrease in other financial assets at amortised cost	(387)	(163)	(194)
(Increase)/ decrease in other current assets	(124)	81	(303)
Decrease in trade and other payables	(49)	(1,222)	(900)
Increase/ (decrease) in deferred income	(679)	(739)	1,675
Increase/ (decrease) in provisions	12	9	341
Cash inflow/ (outflow) from operations	**1,847**	**(447)**	**2,655**
Analysed as:			
Cash flows from operations before payment of non-recurring transaction costs	**1,847**	**298**	**3,420**
Non-recurring transaction cost payments	-	(745)	(765)
Interest received	20	12	29
Interest paid	(294)	(207)	(478)
Income tax refund	-	11	11
Net cash inflow/ (outflow) from operating activities	**1,573**	**(643)**	**2,217**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	(462)	(10,974)	(10,974)
Purchases of property, plant and equipment	(327)	(54)	(171)
Payment of software development costs	(709)	(830)	(1,764)
Purchases of other intangible assets	(34)	(123)	(137)
Net cash outflow in investing activities	**(1,532)**	**(11,969)**	**(13,046)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	-	-	9
Proceeds from borrowings	-	7,000	7,000
Dividends paid to Company's shareholders	-	(1,461)	(3,117)
Net cash inflow in financing activities	**-**	**5,539**	**3,892**
Net increase/ (decrease) in cash and cash equivalents	**41**	**(7,073)**	**(6,937)**
Cash and cash equivalents at beginning of period	5,779	12,724	12,724
Effects of exchange rate changes on cash and cash equivalents	(12)	(1)	(8)
Cash and cash equivalents at end of period	**5,808**	**5,650**	**5,779**

Notes to the financial information for the six months ended 31 December 2018

1. General information
Netcall plc (AIM: "NET", "Netcall", or the "Company") is a leading provider of customer engagement software. It is a public limited company which is quoted on AIM (a market of the London Stock Exchange). The Company's registered address is 1st Floor, Building 2, Peoplebuilding Estate, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 4NW and the Company's registered number is 01812912.

2. Basis of preparation
The Group interim results consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The principal trading subsidiaries of Netcall are Netcall Telecom Ltd and MatsSoft Ltd.

These consolidated interim financial statements (the 'results') have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (February 2019). This results announcement are unaudited and does not constitute statutory accounts of the Group within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 (the 'Act'). The balance sheet at 30 June 2018 has been derived from the full Group accounts published in the Annual Report and Accounts 2018, which has been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Act.

The results have been prepared in accordance with the accounting policies set out in the Group's 30 June 2018 statutory accounts, which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union ("EU").

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts from customers' which have become effective for this financial year.

IFRS 9 replaces IAS 39, the previous Standard dealing with the recognition and measurement of financial instruments. The adoption of IFRS 9 has impacted the classification and measurement of the Group's financial assets. The Company holds most financial assets to collect the associated cash flows and those will continue to be initially recognised at fair value and subsequently carried at amortised cost. However, the Company's equity investment in Macranet Limited which was previously classified as an available-for-sale financial asset is now measured at fair value through other comprehensive income.

IFRS 15 establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces separate models for goods, services and construction contracts under the current accounting standards. The adoption of IFRS 15 did not have a significant impact on the timing or amount of revenue recognised by the Group in any year.

No other significant changes to accounting policies are expected for the year ending 30 June 2019.

The results for the six months ended 31 December 2018 were approved by the Board on 4 March 2019. A copy of these interim results will be available on the Company's web site www.netcall.com from 5 March 2019.

The principal risks and uncertainties faced by the Group have not changed from those set out on page 9 of the annual report for the year ended 30 June 2018.

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

The key segmental measure is adjusted EBITDA which is profit before interest, tax, depreciation, amortisation, acquisition and reorganisation expenses and share-based payments, which is set out on the consolidated income statement.

4. Earnings per share
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:

	Six months to 31 December 2018	Six months to 31 December 2017	12 months to 30 June 2018
Net earnings attributable to ordinary shareholders (£'000s)	291	181	136

Weighted average number of ordinary shares in issue (000s)	142,978	142,134	142,460
Basic earnings per share (pence)	**0.20**	**0.13**	**0.10**

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

	Six months to 31 December 2018	Six months to 31 December 2017	12 months to 30 June 2018
Weighted average number of ordinary shares in issue (000s)	142,978	142,134	142,460
Adjustments for share options (000s)	2,561	4,922	4,901
Weighted average number of potential ordinary shares in issue (000s)	145,539	147,056	147,361
Diluted earnings per share (pence)	**0.20**	**0.12**	**0.09**

Adjusted basic and diluted 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 utilisation of historic tax losses. 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:

£'000s	Six months to 31 December 2018	Six months to 31 December 2017	12 months to 30 June 2018
Profit used for calculation of basic and diluted EPS	**291**	**181**	**136**
Impairment charge on intangible assets	-	-	792
Amortisation of acquired intangible assets	259	323	547
Non-recurring transaction costs	-	456	464
Change in fair value of contingent consideration	(121)	-	-
Post-completion services	147	235	464
Share-based payments	280	521	1,001
Unwinding of discount - contingent consideration & borrowings	95	52	208
Tax adjustment	(81)	(257)	(613)
Profit used for calculation of adjusted basic and diluted EPS	**870**	**1,511**	**2,999**

Pence	Six months to 31 December 2018	Six months to 31 December 2017	12 months to 30 June 2018
Adjusted basic earnings per share	**0.61**	1.06	2.02
Adjusted diluted earnings per share	**0.60**	1.03	1.95

5. Dividends

Dividends paid or declared during the period were as follows:

Six months to December 2018	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	December 2018 balance sheet (£'000)
Final ordinary dividend for year to June 2018[1]	6/2/19	0.53p	-	758	758
			-	**758**	**758**

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

[1] The final ordinary dividend for the year ended 30 June 2018 was approved at the Annual General Meeting held on 12 December 2018.

6. Net debt reconciliation

	31 December 2018	31 December 2017	30 June 2018
Cash and cash equivalents	5,808	5,650	5,779
Borrowings – repayable after one year[1]	(6,576)	(6,462)	(6,518)
Net debt	**(768)**	**(812)**	**(739)**

[1] To support the acquisition of MatsSoft Limited in August 2017, the Company issued a £7m Loan Note with options over 4.8m new ordinary shares of 5p each priced at 58p. 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 Loan Note was initially allocated a fair value of £6.42m and the share option a fair value of £0.58m. The discount on the carrying value of the Loan Note is being amortised via the profit and loss account over the expected option life of five years.